



Thinking
beyond
the box

Stewardship Ontario

WDO Filing on 2012 Program Performance

March 28, 2013

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Section 1

2012 Blue Box Program Performance

Blue Box Performance Report for 2012

WDA Requirements

Stewardship Ontario is the industry funding organization responsible for the Blue Box Program Plan, which was approved by the Minister on December 22, 2003 and commenced on February 1, 2004. For further information please see the Stewardship Ontario website at www.stewardshipontario.ca and the Waste Diversion Ontario website at www.wdo.ca.

Stewardship Ontario undertook three formal consultations/information sessions in 2012:

- Blue Box First Principles Consultation on the Fee Setting Methodology, May 31, 2012.
- Blue Box Fee Setting Methodology Consultation Meeting/Webinar #2, July 24, 2012
- Blue Box 2013 Fees - Information Session, September 27, 2012

In 2012, Stewardship Ontario engaged in a review of the Blue Box fee setting methodology to determine if modifications could be made to better reflect consumer and marketplace trends, while continuing to share costs in a fair and equitable manner. The process began in May with a “first principles” discussion of the current methodology and in response to a series of questions posed, stewards expressed their desire for a fee setting methodology that is fair, simple and understandable. At the July meeting, Stewardship Ontario offered a potential new methodology for consideration which, having come forward from the steward community was designed by its proponents to be simpler and more relevant to the business experience of stewards, while consistent with the methodology’s core principles of sharing costs fairly and equitably. Stewards were asked to state their preference between option 1 – the current methodology and option 2 the new approach. Steward submissions following the July meeting indicated that there was not a clear consensus on one option and therefore Stewardship Ontario did not make any changes to the fee setting methodology for 2013 fee schedule, which was presented to stewards at the September 27, 2012 meeting.

Relevant documentation for each of the three meetings (discussion papers, presentations, Q&A’s etc.) can be found at: www.stewardshipontario.ca

Steward Registration, Reporting & Audit

Steward registration for the Blue Box program totalled 2,976. Of these, 47 were new steward registrations in 2012.

Total number of Blue Box stewards reporting in 2012 was 1,505 (versus 1,534 in 2011).

The total fees paid by the reporting Blue Box stewards in 2012 were \$104,638,471 (versus \$92,661,177 in 2011). These are the fees reported in Stewardship Ontario’s Statement of Operations. Note that steward reports for any prior year’s obligations are captured in the year that the reporting takes place.

2012 marked the second year of Stewardship Ontario's new audit framework (designed in cooperation with Deloitte and Touche, and building upon learnings from European EPR jurisdictions). 13 steward audits were undertaken during the year. The audit framework for selecting stewards for audit gives higher priority to improving overall confidence in the quality of reporting, rather than simply achieving a defined tonnage target. 14 audits were undertaken in 2011.

Program Diversion Performance

The Blue Box program, operated by Ontario municipalities and funded in part by Stewardship Ontario via the Program Plan, achieved a material diversion rate of 64.2% (calendar year 2011).

Total tonnes diverted increased from 887,242 tonnes in 2010 to 904,850 tonnes in 2011, but due to adjustments in the calculation of tonnes supplied, the measured diversion rate declined from 67.6% to 64.2% (though still well above the target rate of 60%).

Market Development

Stewardship Ontario has an obligation under the Blue Box Program Plan to “undertake investments in market development activities in partnership, where possible, with other parties (e.g. the private sector, municipal, provincial and federal interests)”.

Stewardship Ontario now has an established history in this regard, with the advancement of its market development program for mixed rigid plastics and film, and the success and expansion of Entropex of Sarnia Ontario and EFS Plastics, now based in Listowel Ontario.

Stewardship Ontario accelerated its market development efforts in 2011 to incorporate learnings from previous investments in Entropex and EFS, and the earlier investment in Unical, in an effort to identify new opportunities to improve the recycling supply chain, protect its initial investment, and extract more value from recyclable materials in Ontario. Specifically, Stewardship Ontario:

- Issued a broad “Request for Expressions of Interest” in the spring of 2011, aimed at identifying new companies with innovative new approaches to recycling, and who had an interest in working with Stewardship Ontario. More than 60 submissions have been received to date and Stewardship Ontario is in active discussion with more than 15.
- Initiated a comprehensive review of recycling of fibre packaging (including composite paper packaging), and the potential to expand collection and recycling of these materials (in a manner similar to the success achieved for mixed rigid plastics).
- Expanded its involvement with EFS Plastics, providing a new loan on commercial terms, enabling the relocation and further expansion of the EFS facility.

Stewardship Ontario's efforts in this regard continued in 2012. We have now established that strong and stable end-markets exist in North America that can reprocess a mixed stream of composite paper packaging of many types, including gable top cartons, aseptic containers and hot and cold drink cups. A pilot project was also initiated to demonstrate that these materials can be captured at higher rates at curbside and sorted for sale. Efforts at establishing a recycling supply chain that includes hot and cold drink cups and other laminate paper packaging will continue into 2013. Working with CIF and the Canadian Plastics Industry Association, Stewardship Ontario contributed to the establishment of a stable processor to accept expanded polystyrene foam, and has been investigating options for the capture of plastic film.

In addition, Stewardship Ontario has had further success in creating demand for recycled plastics via a loan on commercial terms to Green Mantra Technologies, to enable Green Mantra to build a production facility to deploy innovative new technology that can convert discarded plastics into synthetic wax.

As a result of these initiatives, ongoing research by Stewardship Ontario, and discussions with new and existing Ontario recyclers, Stewardship Ontario believes the province has the potential, under the right conditions, to substantially increase the amount of Blue Box material that is converted into new manufacturing commodities, rather than the material being shipped to the United States or overseas.

Section 2

2012 MHSW Program Performance

MHSW Performance Report for 2012

WDA Requirements

The MHSW Program is designed to collect consumer household hazardous and special waste material and manage these materials to their end-of-life (recycled or disposed of safely) in accordance with the Waste Diversion Act, 2002.

Program implementation occurred in two phases – Phase 1 launched in July 2008 with nine materials (Ontario Regulation 542/06; Amended O-Reg 28/08). The Consolidated MHSW program (Phase 2 ‘Special Waste’ and Phase 3 ‘Hazardous Waste’) launched July 1, 2010 bringing the total number of materials to 22. For program plan information please see “Municipal Hazardous or Special Waste” at www.wdo.ca.

On July 20, 2010 the Minister of the Environment suspended Phases 2 and 3 (Ontario Regulation 298/10) for a 90-day review period. The Minister subsequently announced on October 12, 2010: “The government is permanently ending the household waste program that took effect on July 1.” (Ontario Regulation 396/10). The Minister requested that Stewardship Ontario prepare a revised nine material Phase 1 MHSW program plan and continue to prudently manage Phases 2 and 3 MHSW during a transition period.

Stewardship Ontario undertook one formal consultation in 2011 on definitions for the revised MHSW Program Plan. Six sessions were held between February 22 and March 3, 2011 for the nine MHSW materials to present, discuss and obtain steward feedback on draft Phase 1 MHSW Program Plan definition revisions. Follow up documents from the consultations including a Q&A and the material definitions submitted to the WDO can be found at www.stewardshipontario.ca.

A revised Municipal Hazardous or Special Waste Program Plan consultation took place on Thursday, August 23, 2012 at the Doubletree Hotel near Toronto Pearson Airport. The consultation was well attended by over 120 stakeholders and described Stewardship Ontario's approach to the operation of the revised MHSW program to ensure that stakeholders are familiar with the revised plan to enable them to provide feedback. The revised MHSW Program Plan will be submitted to Waste Diversion Ontario for approval in 2013.

Steward Registration, Reporting & Audit

Total number of MHSW stewards reporting in 2012 was 588. In 2011, 580 MHSW stewards reported.

The total fees invoiced to the reporting MHSW stewards in 2012 were \$49,170,731. In 2011, \$38,569,218 was invoiced to reporting MHSW stewards. The fee is as stated in Stewardship Ontario's Statement of Operations; note that steward reports for any prior year's obligations are captured in the year that the reporting takes place.

In February 2012, the Ministry of the Environment issued O.Reg 11/12 that amends O.Reg 542/06 and dictates Stewardship Ontario's fee setting methodology to be a cost recovery mechanism based on stewards' reported supply into market assessed as their share of costs. The Regulation came into force on April 1, 2012

when deficit calculations were required to be completed. Steward reporting for 2012's Q2 obligation also took place in April and reflected the new cost allocation methodology using market share from steward reporting from their 2012 Q1 reports against actual costs incurred by Stewardship Ontario in Q1 2012. This new methodology continued for the remainder of 2012 as required by the Regulation.

Report on MHSW steward audits: In 2012, 24 audits to review steward data collection, reporting systems and methodologies. A further 12 audits specific to oil filters and oil containers occurred in 2012 through the Used Oil Association. The audit framework for selecting stewards for audits gives higher priority to improving overall confidence in the quality of reporting, rather than simply achieving a defined tonnage target.

Vendor Registration

Commercial service providers registered for MHSW material management:

	Year	Transporters	Processors
Vendor Registrations	2011	40	31
	2012	44	35
New Vendor Reviews	2012	-	4
New Lab Pack Studies	2012	Antifreeze, Automotive Plastics (Antifreeze Containers, Oil Containers), Oil Filters, Paint and Coatings (Driveway Sealers, Roof Coatings), Pesticides, Pressurized Containers (Non-Propane Refillable and Non-Refillable), Mixed Batteries (Collected at Events)	

Accessibility

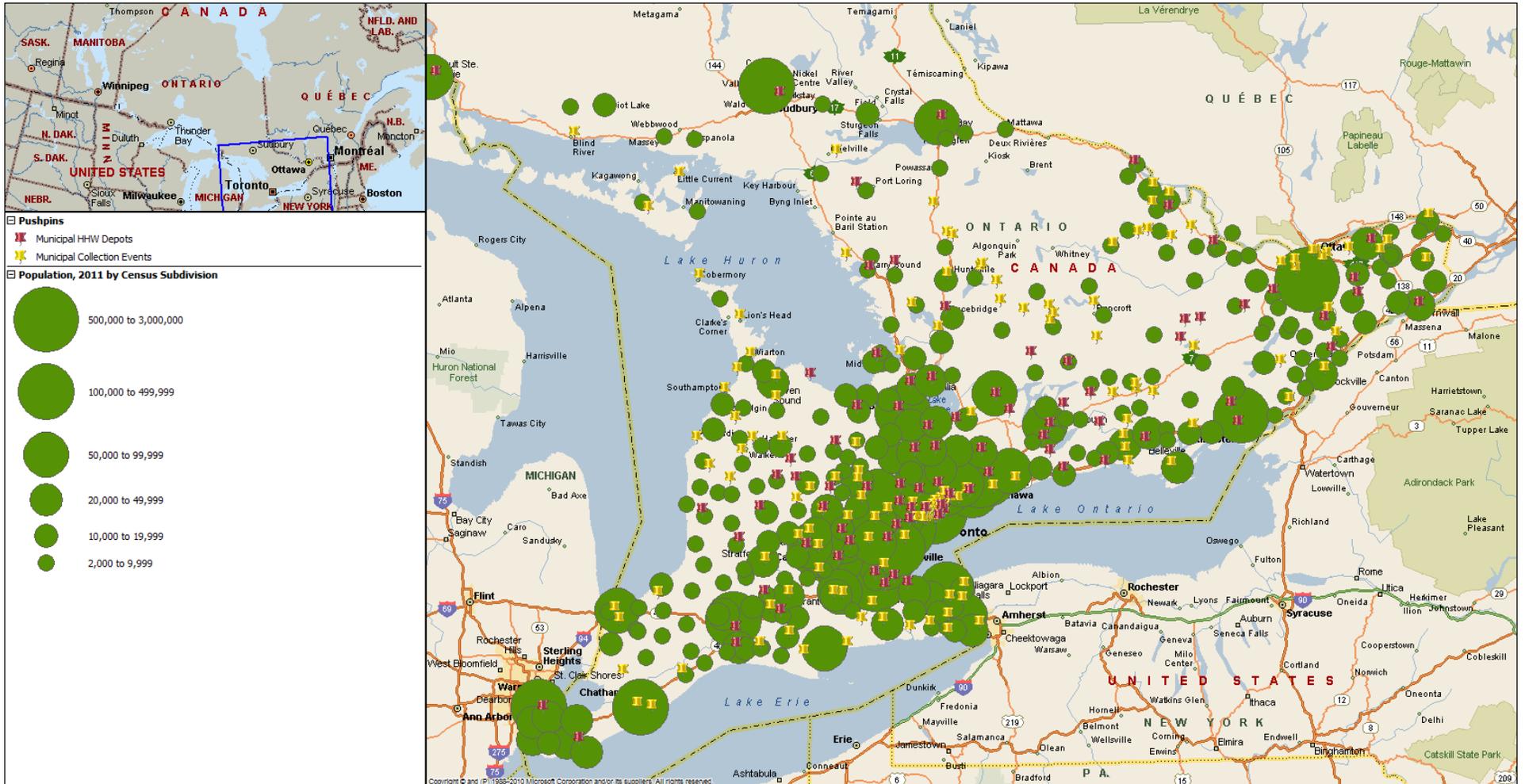
The following chart details consumer accessibility by collector type for MHSW in 2012:

Channel - Activity	2012 Target	2012 Actual	Notes
Municipal – Depot	110	87	There were no changes to the number of depots versus 2011
Municipal – Events	425	347	Municipalities control events due to Ph 2/3
Automotive – Commercial Sites	9,500	12,000+	
Automotive – Do It Yourself (DIY) Sites	200	592	150 new sites were added in 2012
Return-to-Retail	400	288	
Battery Incentive Program (BIP)	-	2,739	1,588 new sites were added in 2012
Provincial Parks Program	108	90	
Total Sites	10,743	16,143	+ 50% to target and +31% to last year

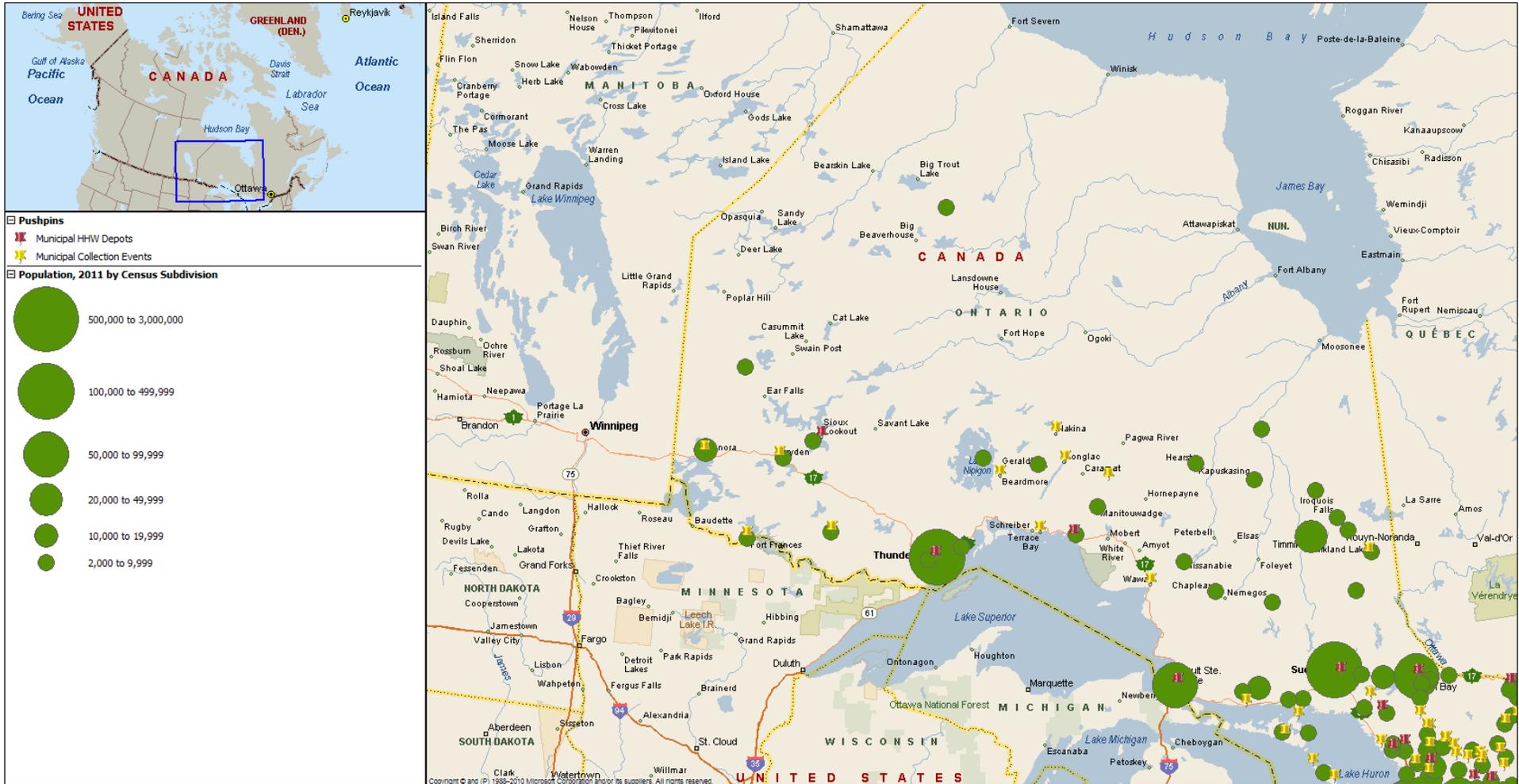
Accessibility Map

Population of Ontario mapped to show municipal collection access by depot and event by population density for 2012.

Municipal Accessibility - Southern Ontario



Municipal Accessibility - Northern Ontario



Program Performance Against Targets

2012 Tonnes Collected

Stewardship Ontario and Waste Diversion Ontario agreed to align the 2012 calendar year with the performance targets for year 2 of the Consolidated MHSW Program Plan.

Material Category	Available for Collection	Collection Target Rate (%)	Target Tonnes	Actual Collection Tonnes	Actual Collection Rate (%)	Variance to Target (Tonnes)	Prior Year (Tonnes)	Variance to Prior Year (Tonnes)
Antifreeze	11,370	35%	3,980	3,151	28%	-829	2,644	507
Fertilizers	115	n/a	n/a	104	91%	n/a	78	26
Oil Containers	3,453	37%	1,278	2,998	87%	1,720	2,554	444
Oil Filters	8,974	70%	6,282	8,833	98%	2,551	8,483	350
Paints & Coatings (incl Aerosols)	11,217	47%/50%	5,345	10,712	96%	5,367	10,013	699
Pesticides	100	n/a	n/a	46	46%	n/a	33	13
Pressurized Containers (Non-Refillable)	664	16%	106	336	51%	230	319	17
Pressurized Containers (Refillable)	1,202	88%	1,058	538	45%	-520	350	188
Single-Use Batteries	6,848	25%	1,712	966	14%	-746	1,011	-45
Solvents	1,932	49%	947	795	41%	-152	646	149

2012 Tonnes Diverted

Stewardship Ontario and Waste Diversion Ontario agreed to align the 2012 calendar year with the performance targets for year 2 of the Consolidated MHSW Program Plan.

Material Category	Available for Collection	Diversion Target Rate (%)	Target Tonnes	Actual Diversion Tonnes	Actual Diversion Rate (%)	Variance to Target (Tonnes)	Prior Year (Tonnes)	Variance to Prior Year (Tonnes)
Antifreeze	11,370	35%	3,980	3,151	28%	-829	2,644	507
Fertilizers	115	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oil Containers	3,453	37%	1,278	2,998	87%	1,720	2,554	444
Oil Filters	8,974	70%	6,282	8,833	98%	2,551	7,889	944
Paints & Coatings (incl Aerosols)	11,217	31%/44%	3,796	8,142	73%	4,346	6,798	1,344
Pesticides	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Pressurized Containers (Non-Refillable)	664	16%	106	336	51%	230	319	17
Pressurized Containers (Refillable)	1,202	88%	1,058	538	45%	-520	350	188
Single-Use Batteries	6,848	16%	1,080	845	12%	-235	870	-25
Solvents	1,932	n/a	n/a	172	9%	n/a	n/a	n/a

Promotion and Education

The communications, promotions and education (P&E) activities to support the Orange Drop (MHSW) Program are designed to increase awareness, drive behaviour change, and support collection channels (such as depots, events, retailers, parks and incentive partners) to achieve targets.

Orange Drop team activities in support of the promotion and education mandate in 2012 fell into five key areas of market development:

Activity Type	Number
Family Activities/Events	15
Educational Presentations	17
Battery Campaign	See Notes Below
Channel Advertising Support	34
Total	66+
Social Media: Facebook "Likes"	984
Social Media: Twitter "Followers"	967

Family activity and event participation allows the Orange Drop brand to effectively reach residents as waste generators. In 2012, the events team attended a mix of local, trade and community events, interacting with residents and informing them about the Orange Drop Program. Events attended included the Ontario Science Centre, Green Expo/ Eco Fest in Peterborough, Barrie and Waterloo, Royal Winter Fair in Toronto, North Bay Summer in the Park, Norfolk County Fair, Bowmansville Mobil 1 Motorsport, Toronto Home Show, and the Canadian Waste and Recycling Expo.

Educational opportunities are also an excellent opportunity to change behaviour. In 2012, Orange Drop educational presentations occurred in schools in Toronto and Hamilton.

The primary investment in P&E for 2012 was material-specific for batteries which has not yet met target. The campaign started in August and wrapped up in November. Activities included: advertising in local media; placing news stories in local media - newspapers and radio; media relations resulting in several radio interviews with Stewardship Ontario spokesperson, a Canadian Press story, coverage on Breakfast Television on City TV and CP24; mobile app launch to encourage people to recycle their batteries, with a donation of 30c for each battery dropped off (to a max of 50,000 batteries) to one of two environmental charities; engaged consumers using social media - sharing infographics, videos and blogger outreach activity. Total media impressions were 5.6M and advertising reach was 9M. Visits to the Orange Drop website increased by 166 per cent.

Orange Drop was also able to reach a large number of Ontario residents through municipal waste calendars and websites for the program (nine materials) overall. In 2012, 27 municipalities were supported with exposure to 1,869,000 households. The Orange Drop Program also provided advertising support to Ontario Parks (6 editions of Parks Insider, the Parks Guide, and over 800 posters (English and French)) to communicate Orange Drop pressurized container collection cages in 90 parks.

Social media work has developed an increased following. The ongoing Facebook and Twitter activity – driving messaging around the battery campaign, sharing environmental stories and encouraging recycling – has assisted with reaching multiple demographics of waste generators. Facebook currently has 984 likes (up from 646 in 2011) and Twitter has 967 followers (up from 183 in 2011).

Section 3

2011 Audited Financial Statements

Stewardship Ontario

Financial Statements

For the year ended December 31, 2012

Stewardship Ontario

Financial Statements

For the year ended December 31, 2012

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Independent Auditor's Report

To the Members of Stewardship Ontario

We have audited the accompanying financial statements of Stewardship Ontario, which comprise the balance sheets as at December 31, 2012, December 31, 2011 and January 1, 2011 and the statements of changes in net assets, operations and cash flows for the years ended December 31, 2012 and December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Stewardship Ontario as at December 31, 2012, December 31, 2011 and January 1, 2011, and the results of its operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

March 28, 2013
Toronto, Ontario

Stewardship Ontario Balance Sheet

December 31, December 31, January 1,
2012 2011 2011

Assets

Current

Cash	\$ 7,535,772	\$ 3,119,759	\$ -
Investments (Note 3)	32,126,192	55,025,249	70,688,326
Accounts and other receivables (Note 4)	35,072,461	21,745,736	4,731,215
Prepaid expenses and deposits	427,230	260,817	287,568

	75,161,655	80,151,561	75,707,109
Capital assets (Note 5)	2,025,971	1,656,525	2,116,166
Long term receivables (Note 4)	6,642,584	-	-
Investments (Note 3)	45,319,941	35,358,521	35,584,101
Convertible loans receivable (Note 6)	3,000,000	-	-

\$ 132,150,151 \$ 117,166,607 \$ 113,407,376

Liabilities and Net Assets

Current

Bank overdraft	\$ -	\$ -	\$ 16,399,699
Accounts payable and accrued liabilities	54,283,686	58,766,468	43,340,692
Deferred revenue (Note 7)	37,536,627	38,691,827	42,056,362

91,820,313 97,458,295 101,796,753

Net Assets

Invested in capital assets	2,025,971	1,656,525	2,116,166
Unrestricted	24,879,276	8,983,018	2,713,165
Internally restricted (Note 8)	13,424,591	9,068,769	6,781,292

40,329,838 19,708,312 11,610,623

\$ 132,150,151 \$ 117,166,607 \$ 113,407,376

On behalf of the Board:


 _____ Director


 _____ Director

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

Stewardship Ontario Statement of Changes in Net Assets

For the year ended December 31, 2012

	Invested in Capital Assets	Unrestricted	Internally Restricted	2012 Total
Balance, beginning of year	\$ 1,656,525	\$ 8,983,018	\$ 9,068,769	\$ 19,708,312
Excess of revenue over expenses for the year	(485,507)	21,901,211	(794,178)	20,621,526
Investment in capital assets	854,953	(854,953)	-	-
Plastic Market Development Fund (Note 8)	-	(3,000,000)	3,000,000	-
Blue Box Fund (Note 8)	-	(1,650,000)	1,650,000	-
Fibre Market Development Fund (Note 8)	-	(500,000)	500,000	-
Balance, end of year	\$ 2,025,971	\$ 24,879,276	\$ 13,424,591	\$ 40,329,838

For the year ended December 31, 2011

	Invested in Capital Assets	Unrestricted	Internally Restricted	2011 Total
Balance, beginning of year	\$ 2,116,166	\$ 2,713,165	\$ 6,781,292	\$ 11,610,623
Excess of revenue over expenses for the year	(478,122)	9,288,334	(712,523)	8,097,689
Investment in capital assets	18,481	(18,481)	-	-
Plastic Market Development Fund (Note 8)	-	(3,000,000)	3,000,000	-
Balance, end of year	\$ 1,656,525	\$ 8,983,018	\$ 9,068,769	\$ 19,708,312

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

Stewardship Ontario Statement of Operations

For the year ended December 31	2012	2011
Revenue		
Blue Box program steward fees	\$104,638,471	\$ 92,661,176
MHSW program steward fees (Phase I)	49,170,731	38,569,208
MHSW deficit recovery fees (Phase I) (Note 4(b))	16,092,753	-
MHSW program fees (Phase II/III) (Note 4(a))	9,493,700	24,106,134
MHSW administrative fees	1,866,407	2,605,208
Investment income (Note 9)	958,287	1,506,113
	<u>182,220,349</u>	<u>159,447,839</u>
Expenses		
Blue Box Program		
Municipal Transfer Payments	85,412,723	81,105,778
Continuous Improvement Fund (Note 11(c))	4,450,752	9,013,449
Research and development	906,311	886,598
Enterprise Information System	403,029	434,984
	<u>91,172,815</u>	<u>91,440,809</u>
MHSW Program		
Direct material costs (Phase I)	41,385,751	36,656,019
Direct material costs (Phase II/III)	9,493,700	13,875,263
Shared promotion and education	791,270	550,359
Bad debt expense (Note 4(a))	5,652,006	-
	<u>57,322,727</u>	<u>51,081,641</u>
Common costs		
Program management	10,927,208	7,594,102
Waste Diversion Ontario and Ministry of Environment charges (Note 10)	2,176,073	1,233,598
	<u>13,103,281</u>	<u>8,827,700</u>
Total expenses	<u>161,598,823</u>	<u>151,350,150</u>
Excess of revenue over expenses for the year	<u>\$ 20,621,526</u>	<u>\$ 8,097,689</u>

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

Stewardship Ontario Statement of Cash Flows

For the year ended December 31	2012	2011
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	\$ 20,621,526	\$ 8,097,689
Adjustments to reconcile excess of revenue over expenses for the year to cash provided by operating activities		
Amortization of capital assets	485,507	478,122
Non-cash component of investment income	445,406	99,070
Changes in non-cash working capital balances		
Accounts and other receivables	(13,326,725)	(17,014,521)
Prepaid expenses and deposits	(166,413)	26,751
Long term receivables	(6,642,584)	-
Accounts payable and accrued liabilities	(4,482,782)	15,425,776
Deferred revenue	(1,155,200)	(3,364,535)
	<u>(4,221,265)</u>	<u>3,748,352</u>
Investing activities		
Purchase of investments	(36,771,826)	(35,143,231)
Proceeds from investments	49,264,057	50,932,818
Purchase of capital assets	(854,953)	(18,481)
Convertible loans receivable	(3,000,000)	-
	<u>8,637,278</u>	<u>15,771,106</u>
Increase in cash during the year	4,416,013	19,519,458
Cash (bank overdraft), beginning of year	3,119,759	(16,399,699)
Cash, end of year	\$ 7,535,772	\$ 3,119,759

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

Stewardship Ontario Notes to Financial Statements

December 31, 2012

1. Significant Accounting Policies

The following is a summary of significant accounting policies of the Organization:

(a) Business Organization and Operations

Stewardship Ontario ("Organization") is an Industry Funding Organization created under Section 24 of the Waste Diversion Act, 2002 ("WDA") to operate waste diversion programs on behalf of Waste Diversion Ontario ("WDO"). On February 14, 2003, the Organization was formally incorporated in the Province of Ontario as a corporation without share capital.

Blue Box Program

The first Blue Box Program Plan was approved by the Minister of the Environment in December 2003 and the program commenced operations in February 2004.

MHSW Program (Phase I)

On December 11, 2006, the Minister of the Environment prescribed Municipal Hazardous or Special Waste ("MHSW") as a designated waste under the WDA. The Minister required that WDO develop a waste diversion program for MHSW, and the Organization to be the Industry Funding Organization ("IFO"). The Minister of the Environment approved the Phase 1 Program Plan in November 2007. The MHSW officially commenced operations July 1, 2008.

On February 9, 2012, the Minister of the Environment exercised his powers under section 42(4) of the Waste Diversion Act to issue a regulation prescribing how the Organization is to finance the MHSW program (Phase I). Ontario Regulation 11/12 effectively amends the fee-setting methodology in the Consolidated MHSW Program Plan (Phase I) which allows the Organization to set fees on a per unit/volume basis. When Ontario Regulation 11/12 took effect on April 1, 2012, the Organization was required to apply a market share methodology to recover both ongoing operating costs and to also recover past deficits that have accumulated over the course of the program (see Note 4(b)). This new cost recovery methodology is designed to result in an economically sustainable program.

MHSW Program (Phase II/III)

In a letter dated September 22, 2009, the Minister of the Environment approved the commencement of the Consolidated MHSW plan, which added 14 new material categories to the program, to commence July 1, 2010 ("MHSW program (Phase II/III)"). On July 20, 2010, the Minister of the Environment, through Ontario Regulation 298/10, halted and under Ontario Regulation 396/10, put an end to the Organization's ability to collect steward fees against the new materials and definitions under the MHSW program (Phase II/III). Material collection and the associated obligation to pay for these costs continued to exist through 2010, 2011 and 2012 for all materials under the MHSW program (Phase II/III). The Minister of the Environment will reimburse the Organization for all costs deemed appropriate for the management of the materials introduced under the MHSW program (Phase II/III) (see Note 4(a)).

Stewardship Ontario Notes to Financial Statements

December 31, 2012

1. Significant Accounting Policies - (Continued)

(b) Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations ("ASNPO").

(c) Revenue Recognition

The Blue Box program steward fees are recognized as revenue based on reported tonnages for stewards registered with the Organization. Steward reported tonnages for prior years' obligations and revenues resulting from compliance and enforcement activities are recognized when the amount can be reasonably estimated and collection is reasonably assured. The MHSW program (Phase I) steward fees are recognized on a cost recovery basis when costs are incurred and collection is reasonably assured. The MHSW program fees (Phase II/III) are recognized on a cost recovery basis when costs are incurred and collection is reasonably assured. The MHSW administrative fees are recognized as services are provided.

The Organization follows the deferral method of accounting for revenues, including those collected and administered on behalf of the Effectiveness & Efficiency Fund ("E&E"), the Continuous Improvement Fund ("CIF") and the Glass Market Development Fund. Amounts received for programs are recognized as revenue when the related expenses are incurred.

(d) Financial Instruments

Money market pooled funds, guaranteed investment certificates and bonds are valued at year-end quoted market prices. Realized and unrealized gains (losses) are recorded in the statement of operations. The Organization accounts for these investments on a settlement date basis and transaction costs associated with these investment activities are included in the statement of operations. These investments have been presented according to their contractual maturity dates.

Common shares and convertible loans receivable are carried at amortized cost (net of any impairments).

Unless otherwise noted, the Organization initially measures its financial assets and liabilities at fair value and subsequently measures its financial assets and liabilities at amortized cost.

(e) Capital Assets

Property, plant and equipment is recorded at cost less accumulated amortization and is amortized on the following basis:

Computer equipment	-	3 years straight line
Furniture and fixtures	-	5 years straight line

Intangible assets with finite lives are recorded at cost and are amortized over their useful life, beginning once the asset is ready for use. The Enterprise Information System is being amortized on a straight line basis over 5 years.

Stewardship Ontario Notes to Financial Statements

December 31, 2012

1. Significant Accounting Policies - (Continued)

(f) Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Significant estimates include estimates of unreported tonnages and collectability of steward fees and accrued post collection costs. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. First-time Adoption

Effective January 1, 2011, the Organization adopted the requirements of the new accounting framework, Canadian accounting standards for not-for-profit organizations (ASNPO) or Part III of the requirements of the Canadian Institute of Chartered Accountants (CICA) Handbook - Accounting. These are the Organization's first financial statements prepared in accordance with this framework and the transitional provisions of Section 1501, First-time Adoption have been applied. Section 1501 requires retrospective application of the accounting standards with certain elective exemptions and retrospective exceptions. The accounting policies set out in Note 1 - Significant Accounting Policies have been applied in preparing the financial statements for the year ended December 31, 2012, the comparative information presented in these financial statements for the year ended December 31, 2011 and in the preparation of an opening ASNPO balance sheet at the date of transition of January 1, 2011.

The Organization issued financial statements for the year ended December 31, 2011 using generally accepted accounting principles prescribed by the CICA Handbook - Accounting Part V - Pre-changeover Accounting Standards. The adoption of ASNPO resulted in no adjustments to the previously reported assets, liabilities, net assets, excess of revenue over expenses and cash flows of the Organization.

The following exemption was used at the date of transition to Canadian accounting standards for not-for-profit organizations:

Financial Instruments

The Organization has elected to designate its fixed income investments to be measured at fair value at the date of transition to ASNPO.

Stewardship Ontario Notes to Financial Statements

December 31, 2012

3. Investments

	2012	2011
Cash held with broker	\$ 466,181	\$ 278,445
Money market pooled funds	5,722,726	16,006,494
Guaranteed investment certificate	20,922,314	34,809,694
Bonds	49,834,912	38,789,137
Common shares, private company	500,000	500,000
	77,446,133	90,383,770
Less: Current portion	32,126,192	55,025,249
	\$ 45,319,941	\$ 35,358,521

Money market pooled funds, guaranteed investment certificates and bonds bear interest at 1.25% to 5.30% (2011 - 1.05% to 6.00%), and mature between May 2013 and April 2020 (2011 - October 2012 and April 2015). The decrease in market value of investments for the year ended December 31, 2012 amounted to \$1,399,861 (2011 - \$424,018) which is included in investment income (Note 9).

The Organization owns 544,818 common shares of a company representing a 12.64% ownership at December 31, 2012. The company is privately owned with no common share prices quoted in an active market.

4. Accounts and Other Receivables

	2012	2011
Blue Box and MHSW program steward fees	\$ 18,301,840	\$ 3,777,636
MHSW program fees (Phase II/III) (a)	11,689,327	18,238,725
MHSW deficit recovery fees (Phase I) (b)	11,956,652	-
Other	25,326	-
Allowance for doubtful accounts	(258,100)	(270,625)
	41,715,045	21,745,736
Less: Current portion	35,072,461	21,745,736
	\$ 6,642,584	\$ -

(a) MHSW program fees (Phase II/III)

During 2011, the Minister of the Environment partially reimbursed costs incurred by the Organization in relation to plan development and start-up for the Consolidated MHSW Program of approximately \$3,657,000 and for a portion of the 2010 operating costs related to the materials covered by the expansion of the Consolidated MHSW Program of approximately \$4,816,000.

Stewardship Ontario Notes to Financial Statements

December 31, 2012

4. Accounts and Other Receivables - (Continued)

(a) MHSW program fees (Phase II/III) - (Continued)

During the current year, the Organization entered into an agreement with the Minister of the Environment for the reimbursement of costs related to operating the MHSW program (Phase II/III). In addition, the Organization wrote off \$5,652,006 in prior program fees receivable which were determined to not be costs eligible for collection from the Ministry of the Environment as part of the MHSW program fees (Phase II/III) which results in these costs being collected over time from the MHSW deficit recovery (Phase I).

Included in revenue is the following amount related to the MHSW program fees (Phase II/III):

	2012	2011
Plan development and start-up costs	\$ -	\$ 3,657,098
2010 program operating costs	-	6,573,773
2011 program operating costs	-	13,875,263
2012 program operating costs	9,493,700	-
	\$ 9,493,700	\$ 24,106,134

(b) MHSW deficit recovery fees (Phase I)

The MHSW deficit recovery fees (Phase I) are receivable from stewards in quarterly installments over a three year period commencing on May 15, 2012.

5. Capital Assets

	2012		2011	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Property, plant and equipment				
Computer equipment	\$ 130,262	\$ 88,743	\$ 115,159	\$ 59,295
Furniture and fixtures	459,785	128,128	265,158	75,097
	590,047	216,871	380,317	134,392
Intangible asset				
Enterprise Information System	2,660,366	1,007,571	2,015,143	604,543
	3,250,413	1,224,442	2,395,460	738,935
Net carrying amount		\$ 2,025,971		\$ 1,656,525

Stewardship Ontario Notes to Financial Statements

December 31, 2012

6. Convertible Loans Receivable

	2012	2011
Convertible loan, private company	\$ 1,500,000	\$ -
Convertible loan, private company	1,500,000	-
	\$ 3,000,000	\$ -

During 2012, the Organization provided a \$1.5 million convertible five year loan that bears interest at Bank of Canada prime rate plus 2% which is accrued and compounded monthly and is payable at the maturity date. The loan is convertible into common shares of the company at a discounted rate under certain conditions or at the option of the Organization at the maturity date. The loan is to a private company with no common share prices quoted in an active market.

During 2012, the Organization provided a \$1.5 million convertible five year loan that bears interest at Bank of Canada prime rate plus 1% which is accrued and compounded monthly and may be converted into shares on the same terms as the principal. The loan is convertible into common shares of the company at a discounted rate under certain conditions or at the option of the Organization at the maturity date. The loan is to a private company with no common share prices quoted in an active market.

7. Deferred Revenue

	2012	2011
Blue Box Program		
Glass Market Development Fund	\$ 666,017	\$ 666,017
Effectiveness & Efficiency Fund	964,965	983,090
Continuous Improvement Fund	35,905,645	37,042,720
	\$ 37,536,627	\$ 38,691,827

Deferred revenue in the Blue Box Program represents unspent resources that are externally restricted for various programs.

Each year, the Organization is directed to hold back a portion of the municipal blue box obligation for the Continuous Improvement Fund ("CIF"); see Note 11(c) for further details regarding the fund. The CIF is managed by external parties and directs the Organization to release funds as required.

Commitments related to the above deferred revenues are further explained in Note 11.

**Stewardship Ontario
Notes to Financial Statements**

December 31, 2012

8. Internally Restricted Net Assets

	2012	2011
Sustaining Fund	\$ 3,500,000	\$ 3,500,000
Plastic Market Development Fund	7,774,591	5,568,769
Blue Box Fund	1,650,000	-
Fibre Market Development Fund	500,000	-
	\$ 13,424,591	\$ 9,068,769

The directors recognized the need for a Sustaining Fund to enable the Organization to carry out its non-profit activities and satisfy all of its obligations for a period of one year and therefore internally restricted \$3,500,000 for this purpose.

The directors authorized the establishment of a fund for investment in infrastructure for plastic markets and activities for their development. During the year, the directors internally restricted \$3,000,000 (2011 – \$3,000,000) and \$794,178 (2011 – \$712,523) was spent on plastics market development activities.

During the year, the directors authorized the establishment of the Blue Box Fund to support future efficiency in the Blue Box supply chain and internally restricted \$1,650,000. During the year, the directors authorized the establishment of the Fibre Market Development Fund to develop markets to support additional recycling and efficiency of fibres recycled in the Blue Box Program and internally restricted \$500,000. No funds have been expended from either of these restricted funds in 2012.

9. Investment Income

	2012	2011
Interest income	\$ 3,162,834	\$ 2,280,659
Loss on sale of investments	(644,233)	(191,657)
	2,518,601	2,089,002
Adjustment to fair value	(1,399,861)	(424,018)
Investment expenses	(160,453)	(158,871)
	\$ 958,287	\$ 1,506,113

10. Waste Diversion Ontario

The WDO caused the Organization to be created under the WDA to act as an IFO for waste diversion programs (Note 1). Under the Blue Box and MHSW program agreements, the Organization is required to collect fees to cover both program operations and the program specific and common costs of WDO that relate to program oversight. The total payments for WDO expenses during the year were \$2,176,073 (2011 - \$1,233,598).

Stewardship Ontario Notes to Financial Statements

December 31, 2012

11. Commitments

(a) Glass Market Development Fund

The Blue Box Program Plan committed to pay \$2,901,525 to a Glass Market Development Fund from contributions from stewards of glass. As of December 31, 2012, the Organization has paid \$2,235,508 and the remaining balance is restricted for glass market development projects.

(b) Effectiveness & Efficiency Fund ("E&E Fund")

The intent of the E&E Fund was to provide support to Ontario municipalities to help reduce the cost of their Blue Box recycling programs and increase the tonnes recovered. This initiative was part of the Blue Box Program Plan that was created as a result of Ontario's Waste Diversion Act, 2002, and an integral part of the plan to help Ontario achieve the Minister's recycling target of 60% diversion of Blue Box waste by 2008 and to maximize efficiency of individual Blue Box municipal recycling programs and of the system as a whole. As of January 1, 2008, the fund was collapsed and there still remains funds that are unspent. The E&E Fund contributions were fully committed by the end of 2008, and through 2009, approved E&E Fund projects continued to be implemented. In 2009, the Municipal Industry Program Committee ("MIPC") agreed that unspent E&E Fund Contributions would be transferred to the Continuous Improvement Fund as projects were completed. At December 31, 2012, the E&E Fund balance is \$964,965, of which it is anticipated that the entire balance will be used in 2013.

(c) Continuous Improvement Fund ("CIF")

The CIF provides grants and loans to municipalities to execute projects that will increase the efficiency of municipal Blue Box recycling and help boost system effectiveness. The CIF started in 2008 with a three year mandate to direct 20% of the Organization's municipal funding obligation to support projects that will identify and implement best practices, examine and test emerging technologies, employ innovative solutions to increase Blue Box materials marketed, and promote gains in cost-effectiveness that can be implemented province wide. Ten percent (twenty percent prior to 2011) of the annual municipal obligation funded by the Organization's stewards is passed along to the CIF each year and any unused amounts are reflected in Deferred Revenue (Note 7). As of December 31, 2012, approved project funding and related commitments for the CIF amounted to approximately \$34,800,000 of the total fund balance of \$35,905,645.

(d) Realty Lease Agreements

Under the terms of lease agreements, the Organization is committed to pay basic rent plus operating costs over the next five years approximately as follows:

2013	\$ 407,400
2014	377,900
2015	359,400
2016	360,000
2017	<u>160,700</u>
	<u>\$ 1,665,400</u>

Stewardship Ontario Notes to Financial Statements

December 31, 2012

12. Financial Instrument Risk Exposure and Management

Management has established policies and procedures to manage risks related to financial instruments, with the objective of minimizing any adverse effects on financial performance. Unless otherwise noted, it is management's opinion that the Organization is not exposed to significant interest rate, currency or credit risks arising from its financial instruments. A brief description of management's assessments of these risks is as follows:

(a) General Objectives, Policies and Processes:

The Board and management are responsible for the determination of the Organization's risk management objectives and policies and designing operating processes that ensure the effective implementation of the objectives and policies. In general, the Organization measures and monitors risk through preparation and review of monthly reports by management.

(b) Credit Risk:

Financial instruments potentially exposed to credit risk include cash, accounts receivable, long term receivables, investments and convertible loans receivable. Management considers its exposure to credit risk over cash to be remote as the Organization holds cash deposits at a major Canadian bank. Management considers its exposure to credit risk over investments to be remote as the Organization invests in federal or provincial government securities, corporate bonds, securities backed by any chartered bank, or guaranteed investment certificates. Accounts receivable and long term receivables are not significantly concentrated, monitored regularly for collections, and the carrying amount represents the maximum credit risk exposure. Convertible loans receivable are due from two companies and represents the maximum credit risk exposure.

From time to time, materials could be the subject of an Industry Stewardship Plan ("ISP"), which is allowable under the Waste Diversion Act, 2002. Successful ISP's may call into question the Organization's ability to collect monies related to accumulated material deficits or those spent on plan development, shared promotion and education and other common costs.

(c) Interest Rate Risk:

The Organization is exposed to interest rate risk from fluctuations in interest rates depending on prevailing rates at renewal of fixed income investments. To manage this exposure, the Organization invests mainly in fixed income securities (federal or provincial government securities, guaranteed investment certificates or securities backed by any chartered bank), and cash and/or money market investments as determined by the Organization's portfolio manager and in accordance with the Organization's investment policy. To further manage interest rate risk, the Organization's investment portfolio has been laddered so that investment maturities are staggered over the long term. Although the overall philosophy of the investment fund is to hold securities until maturity, trading of the portfolio is allowed should the potential for a significant capital gain arise through the movement of interest rates. This investment approach ensures that the portfolio achieves stable and reliable rates of return with minimal interest rate reinvestment risk, and minimal transaction costs.

Stewardship Ontario Notes to Financial Statements

December 31, 2012

12. Financial Instrument Risk Exposure and Management - (Continued)

(d) Liquidity Risk:

Liquidity risk is the risk that the Organization will not be able to meet its obligations as they come due. The two programs operated by the Organization carry substantially different risks in the ability to forecast and control expenditures. Management has taken steps to ensure that the Blue Box and MHSW programs will have sufficient working capital available to meet obligations which it is unable to cover from program revenues in the short term. The introduction of Ontario Regulation 11/12 Amending Ontario Regulation 542/06 that changes the fee setting methodology for the MHSW Phase I Program allows the Organization to charge actual costs to stewards and significantly reduces risks related to timing of receipt and payments for the MHSW Program (Note 1(a)).

(e) Market Risk:

The Organization has common shares and convertible loans receivable which are subject to market value risk. The investments are in private companies with no common share prices quoted in an active market.

13. Comparative Figures

The comparative amounts presented in the financial statements have been restated to conform to the current year's presentation.

14. Subsequent Event

On January 1, 2013, the Organization signed a three year loan agreement to provide funds up to \$1,500,000 to a third party of which \$623,384 has been drawn subsequent to year end. The loan bears interest at Bank of Canada prime rate plus 2% which is accrued and compounded annually and is payable at maturity. The loan is repayable upon maturity and is secured by a general security agreement over all assets of the borrower.



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the box

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