



Thinking
beyond
the box

Stewardship Ontario

WDO Filing on 2013 Program Performance

March 28, 2014

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Section 1

2013 Blue Box Program Performance

Blue Box Performance Report for 2013

WDA Requirements and Consultations

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.

When the 2013 fee rates were calculated in 2012, an anomaly was discovered in the printed paper category. At that time, the decision to partially aggregate fees for magazines, catalogues, directories and other printed paper was taken, which provided a reasonable solution for determining 2013 fees. We also made a commitment at that time to undertake a comprehensive review of the fee setting methodology to address the anomaly.

In 2013 Stewardship Ontario engaged a third-party expert with many years of experience in the stewardship sector, to carry out a review of the fee setting methodology as part of our ongoing work to address the anomaly that arose in the printed paper category between magazines and catalogues, directories and other printed paper as a result of fee rate aggregation for printed paper. In May he presented the findings of his review to printed paper stewards. Three options were presented for setting 2014 fees:

1. Integrate the three-factor formula to allow transfer of cost among printed paper and packaging stewards, and adjustment of the three-factor weightings and equalization threshold.
2. Re-distribute all costs for un-stewarded material across all materials in a way related to the cost of their management in the system.
3. As a fallback for 2014, continue with the methodology used in 2013 with the ability to modify aggregation levels to balance cost transfers once all data are available, as done for 2013 fees.

As the first two recommendations went beyond the scope of the original project, and would require wider steward consultation and approval from the Minister as options one and two represented a 'material' change, the same methodology for fee calculation used for the 2013 fees was again used to calculate the 2014 fees.

In addition to this important consultation with printed paper stewards, Stewardship Ontario's Executive Director presented Stewardship Ontario's proposed 2014 fee schedule on October 31, 2013 at Canadian Stewardship Services Alliance's National Meeting.

Relevant documentation for the National Steward Meeting, which includes a discussion paper, presentations and Q&As can be found at <http://www.stewardshipontario.ca/engagement/steward-engagement-2013-2/>.

Steward Registration, Reporting & Audit

Steward registration for the Blue Box program totalled 2,941 stewards as of December 31, 2013.

The total number of Blue Box steward reports received in 2013 was 1,449 (versus 1,505 in 2012).

The total fees invoiced to the reporting Blue Box stewards in 2013 were \$99,757,409 (versus \$104,638,471 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.

2013 marked the third year of Stewardship Ontario's current audit framework (designed in cooperation with Deloitte, and built upon best practices from European EPR jurisdictions). Fourteen steward reviews of 2012 steward reports were undertaken during the year. The audit objective gives higher priority to improving overall confidence in the quality of reporting, rather than simply achieving a defined tonnage target. Thirteen audits were undertaken in 2012 (of 2011 steward reports).

Program Diversion Performance

The Blue Box Program relies on the collection efforts of Ontario municipalities to collect and divert printed paper and packaging from the waste stream. Municipalities are paid 50% of the costs incurred under the Blue Box Program operating at best practices as set out in the Blue Box Program Plan. The Blue Box Program achieved a material diversion rate of 62.8% (calendar year 2012).

Total tonnes diverted decreased from 904,850 tonnes in 2011 to 892,924 tonnes in 2012 (the most recent year for which data is available). Per capita tonnes remained stable, though very slightly down, compared to 2011. Municipalities have full autonomy in the operation of their recycling systems.

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 has an established history in this regard, most recently 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's efforts continued in 2013 with a focus on mixed rigid plastics and composite paper packaging, with an aim to increase diversion of these materials.

Stewardship Ontario partnered with The Continuous Improvement Fund and seven Ontario municipalities to design and implement an awareness campaign to increase the capture rates of mixed plastic packaging in the blue box. The collaborative effort enabled an integrated and consistent campaign in all participating municipalities. This campaign became the impetus for some Ontario municipalities to add mixed rigid plastics to their curbside collection programs. The campaign included radio, newsprint, electronic media, billboards and social media. Stewardship Ontario and The Continuous Improvement Fund provided cash funding and the 7 municipalities provided in-kind lineage. The municipalities that participated make up over 70% of the provincial Blue Box Program tonnage.

Joint efforts continued with The Carton Council of Canada and Tim Horton's to develop markets for composite paper packaging and to increase its capture rate in the municipal blue box systems. Phase 1 and 2 of the project set out to assess the effectiveness of current manual and mechanical sorting methods of

composite paper packaging in 4 Ontario MRF's, and further to determine actual capture rates of high grade white fibre in end mills. It has been determined that the current PSI-52 grade (gable and aseptic packaging) is sustainable and provides for the recovery of high grade fibre; however, there is currently insufficient volume to provide the scale necessary to promote market flexibility and achieve competitive pricing.

Section 2

2013 MHSW Program Performance

MHSW Performance Report for 2013

WDA Requirements and Consultations

The MHSW Program is designed to collect consumer household hazardous or 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 <http://www.stewardshipontario.ca/stewards-orangedrop/orange-drop-regulations-plans>.

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.

In 2013 Stewardship Ontario held a number of consultations/information meetings with MHSW Stewards, beginning with the Annual True-Up Webinar in April 2013 to explain that each year an annual true-up calculation would be done to ensure that on an annual basis each steward pays their proportionate share of costs regardless of the relationship between their quarterly sales share, supply and the program’s quarterly costs. Stewards also learned that in the interests of improving predictability for them, Stewardship Ontario would use the 2012 annual SSA to calculate quarterly fee payments for the 2013 obligation year instead of each quarter’s individual SSA.

In addition to the Annual True-Up, Stewardship Ontario assembled a working group with oil filter stewards to determine the process by which the oil filter surplus, which was accumulated between July 2010 and December 2011, would be applied as a credit to offset future costs for oil filter stewards.

Stewardship Ontario also met with material-specific steward groups such as the battery stewards and the pressurized container stewards to review program performance of those material categories.

Steward Registration, Reporting & Audit

Steward registration for the MHSW program totalled 805 stewards as of December 31, 2013.

Total number of MHSW steward reports received in 2013 was 2,296 (versus 2,599 in 2012).

The total fees invoiced to the reporting MHSW stewards in 2013 were \$39,180,369. In 2012, \$49,170,731 was invoiced to reporting MHSW stewards. These are the fees 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 2013, the auditors completed the 24 reviews of steward data collection, reporting systems and methodologies initiated in 2012. A further 11 audits specific to oil filters and oil containers occurred in 2013 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	2012	44	35
	2013	45	36
New Vendor Reviews Completed	2013	1	5
New Lab Pack Studies	2013	Fertilizers, Pesticides, and Miscellaneous Organics	

Accessibility

The following chart details consumer accessibility by collector type for MHSW in 2013:

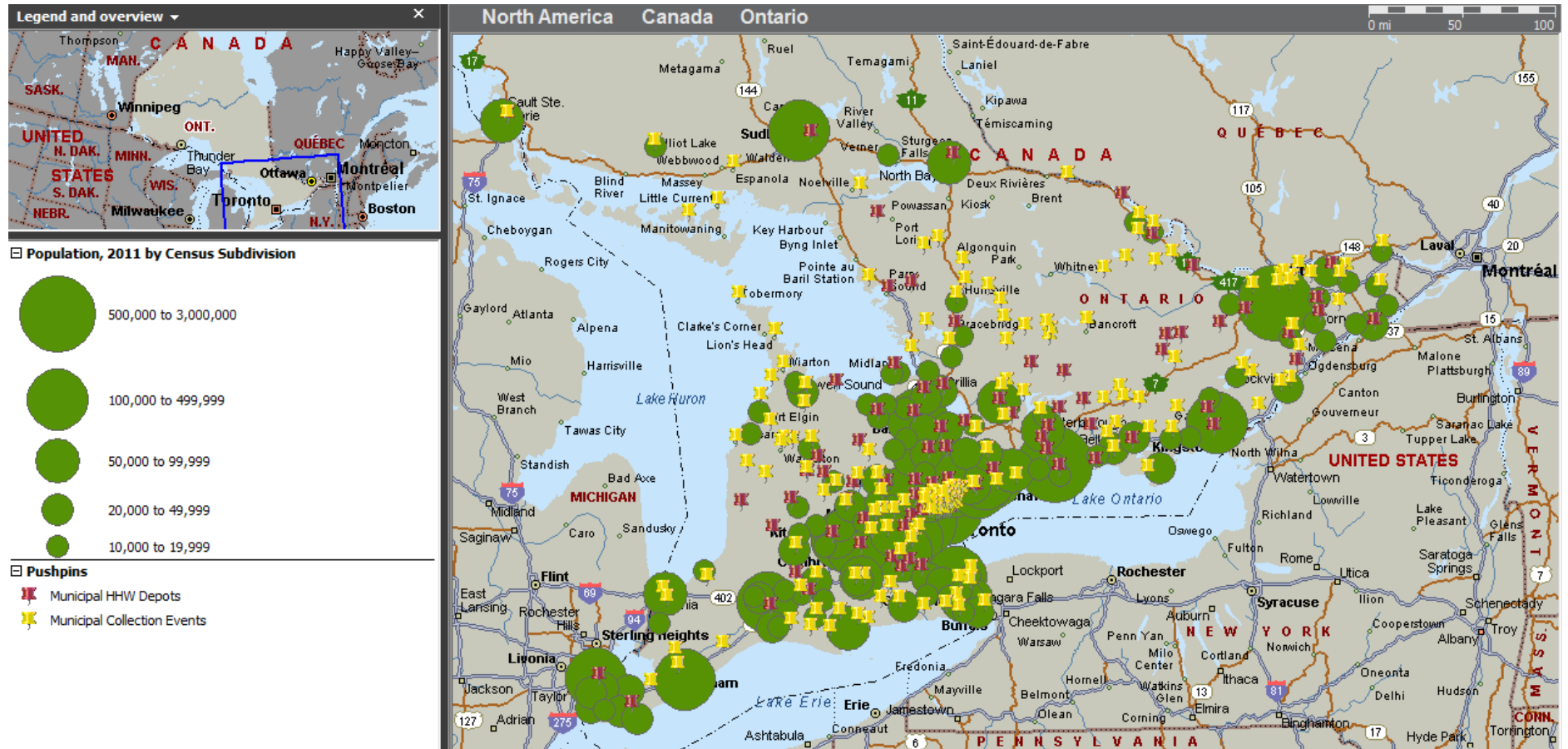
Channel - Activity	2013 Actual
Municipal – Depot	88
Municipal – Events	339
Automotive – Commercial Sites	12,000+
Automotive – Do It Yourself (DIY) Sites	678
Return-to-Retail	196
Battery Incentive Program (BIP)	3,728
Provincial Parks Program	102
Total Sites	17,131

A total of 1,401 new collection sites were added in 2013.

Municipal Accessibility Map

Population of Ontario mapped to show 2013 municipal collection access by depot and event by population density using 2011 census data.

Municipal Accessibility - Southern Ontario



Program Performance Against Targets

2013 Tonnes Collected

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	9,873	40%	3,949	3,448	35%	-501	3,151	297
Fertilizers	105	n/a	n/a	25	24%	n/a	104	-79
Oil Containers	3,515	42%	1,476	3,753	107%	2,277	2,998	755
Oil Filters	9,576	75%	7,182	8,726	91%	1,543	8,833	-107
Paints & Coatings (incl Aerosols)	9,765	57%	5,566	9,377	96%	3,811	10,712	-1,355
Pesticides	65	55%	36	36	55%	0	46	-10
Pressurized Containers (Non-Refillable)	752	25%	188	360	48%	172	336	24
Pressurized Containers (Refillable)	159	93%	148	653	410%	505	538	115
Single-Use Batteries	7,357	30%	2,207	1,271	17%	-936	966	305
Solvents	1,876	46%	863	631	34%	-232	795	-164

2013 Tonnes Diverted

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	9,873	40%	3,949	3,448	35%	-501	3,151	297
Fertilizers	105	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oil Containers	3,515	42%	1,476	3,753	107%	2,277	2,998	755
Oil Filters	9,576	75%	7,182	8,726	91%	1,543	8,833	-107
Paints & Coatings (incl Aerosols)	9,765	40%	3,906	7,574	78%	3,668	8,142	-568
Pesticides	65	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Pressurized Containers (Non-Refillable)	752	25%	188	360	48%	172	336	24
Pressurized Containers (Refillable)	159	93%	148	653	410%	505	538	115
Single-Use Batteries	7,357	23%	1,677	1,093	15%	-584	845	248
Solvents	1,876	5%	94	142	8%	48	172	-30

Promotion and Education

The promotion 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 diversion targets for all MHSW materials, with a focus on those materials that are underperforming against target.

Orange Drop P&E activities in support of the promotion and education mandate in 2013 fell into four key areas of market development:

Activity Type	Number
Family Activities/Events	25
Battery Campaign	See Notes Below
Channel Advertising Support	27
Total	66+
Social Media: Facebook “Likes”	1,259
Social Media: Twitter “Followers”	1,149

Community Outreach Program

The Orange Drop outreach program enables one-on-one interactions with Ontarians, helping to raise awareness of the program, place useful information about disposing of MHSW materials in residents’ hands, and educate members of the public on the importance of safe disposal and what happens to the materials they recycle through the Orange Drop Program.

In 2013, the outreach 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’s March break activities, the Green Living show, PoultryFest Niagara, Sparks Street Canada Day celebrations, St. Catherine’s Classic Car Show, Mississauga RibFest, Thunder Bay CLE Fair and Leamington Tomato Fest among others. The team made a concerted effort to visit areas and events outside of the GTA; an effort that will continue to be a focus in coming years.

Outreach activities ran from March 11 – August 18 and some key outcomes included:

- 49 activation days (the amount of days Orange Drop brand ambassadors were interacting with Ontario residents)
- Interacted with 34,458 people
- Provided 32,335 giveaways (postcards, informational flyers, water bottles, magnets, bags)

Battery Recycling Advertising Campaign

Another primary investment in P&E for 2013 was material-specific for batteries, a material that has not yet met target. The advertising campaign ran from the start of April to the end of June, and included advertising in the following mediums:

- **Radio** – across six radio stations from April 22 – June 30 (Boom Toronto, Virgin 999, 680 News, Z103.5, Virgin London, and Hot 93.5 Sudbury)
- **Out of home** – three prominently placed billboards from April 22 – July 30 (Bathurst and 401 West, Bathurst and 401 East, Gardiner Expressway)
- **Print advertising** – in Metro and in the Green Guide, distributed with Globe and Mail (10 x half page Metro, 4 x front page banners Metro, and Globe & Mail Green Guide)
- **Transit advertising** – TTC subways and Go Train (one poster in every car on TTC subway for three month period, and one poster in every fourth car on Go Trains for two and a half months)
- **Online** – Google ad words (April 8 – June 30)

The total impressions for the whole campaign equaled 215 million

Municipal Waste Calendars

Orange Drop was also able to reach a large number of Ontario residents through municipal waste calendars and websites. In 2013, 31 municipalities were supported with exposure to 1,718,150 households. The Orange Drop Program also provided advertising support to Ontario Parks (the Parks Guide, and over 800 posters (English and French)) to communicate Orange Drop pressurized container collection cages in 90 parks. Orange Drop also started working with Kids Of America (KOA) parks and had over 100 posters distributed to KOA parks.

Social Media

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 1,259 likes (up from 984 in 2012) and Twitter has 1,149 followers (up from 967 in 2012).

Section 3

2013 Audited Financial Statements

Stewardship Ontario

Financial Statements

For the year ended December 31, 2013

Stewardship Ontario

Financial Statements

For the year ended December 31, 2013

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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 sheet as at December 31, 2013, and the statement of changes in net assets, operations and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 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, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

March 21, 2014
Toronto, Ontario

Stewardship Ontario Balance Sheet

December 31 2013 2012

(Note 13)

Assets

Current

Cash	\$ 6,965,562	\$ 7,535,772
Investments (Note 2)	37,733,193	32,126,192
Accounts and other receivables (Note 3)	26,076,044	49,864,010
Loan receivable (Note 4)	330,000	-
Prepaid expenses and deposits	304,387	427,230
	71,409,186	89,953,204
Capital assets (Note 5)	263,505	2,025,971
Investments (Note 2)	43,389,161	45,319,941
Long term receivables (Note 3)	1,551,704	6,642,584
Loan receivable (Note 4)	1,320,000	-
Convertible loans receivable (Note 6)	1,500,000	3,000,000
	\$ 119,433,556	\$ 146,941,700

Liabilities and Net Assets

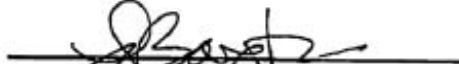

Current

Accounts payable and accrued liabilities	\$ 34,634,768	\$ 54,283,686
Deferred revenue (Note 7)	42,651,029	46,676,170
	77,285,797	100,959,856

Net Assets

Invested in capital assets	263,505	2,025,971
Unrestricted	23,149,311	30,531,282
Internally restricted (Note 8)	18,734,943	13,424,591
	42,147,759	45,981,844
	\$ 119,433,556	\$ 146,941,700

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, 2013

	Invested in Capital Assets	Unrestricted	Internally Restricted	2013 Total
				(Note 13)
Balance, beginning of year	\$ 2,025,971	\$ 30,531,282	\$ 13,424,591	\$ 45,981,844
Excess (deficiency) of revenue over expenses for the year	(116,275)	(1,993,727)	(1,724,083)	(3,834,085)
Investment in capital assets	3,809	(3,809)	-	-
Proceeds on disposal of capital assets	(1,650,000)	1,650,000	-	-
Transfer to Oil Filter Fund (Note 8)	-	(5,194,789)	5,194,789	-
Transfer to Battery Fund (Note 8)	-	(1,839,646)	1,839,646	-
Balance, end of year	\$ 263,505	\$ 23,149,311	\$ 18,734,943	\$ 42,147,759

For the year ended December 31, 2012

	Invested in Capital Assets	Unrestricted	Internally Restricted	2012 Total
				(Note 13)
Balance, beginning of year	\$ 1,856,525	\$ 8,983,018	\$ 9,068,769	\$ 19,708,312
Excess (deficiency) of revenue over expenses for the year	(485,507)	27,553,217	(794,178)	26,273,532
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	\$ 30,531,282	\$ 13,424,591	\$ 45,981,844

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

Stewardship Ontario Statement of Operations

For the year ended December 31	2013	2012
		(Note 13)
Revenue		
Blue Box program steward fees	\$ 99,789,519	\$104,638,471
MHSW program steward fees (Phase I)	38,935,265	49,170,731
MHSW deficit recovery fees (Phase I) (Note 3(b))	-	16,092,753
MHSW program fees (Phase II/III) (Note 3(a))	-	9,493,700
MHSW administrative fees	-	1,866,407
Investment income (Note 9)	1,089,062	958,287
Gain on sale of intangible asset (Note 4)	218,903	-
	<u>140,032,749</u>	<u>182,220,349</u>
Expenses		
Blue Box Program		
Municipal Transfer Payments	91,192,259	85,412,723
Continuous Improvement Fund (Note 11(c))	1,168,014	4,450,752
Research and development	359,203	906,311
Enterprise Information System	532,073	403,029
	<u>93,251,549</u>	<u>91,172,815</u>
MHSW Program		
Direct material costs (Phase I)	37,171,290	41,385,751
Direct material costs (Phase II/III)	-	9,493,700
Shared promotion and education	1,254,352	791,270
	<u>38,425,642</u>	<u>51,670,721</u>
Common costs		
Program management	9,234,816	10,927,208
Waste Diversion Ontario and Ministry of Environment charges (Note 10)	1,454,827	2,176,073
Bad debt expense on convertible loans receivable (Note 6)	1,500,000	-
	<u>12,189,643</u>	<u>13,103,281</u>
Total expenses	<u>143,866,834</u>	<u>155,946,817</u>
Excess (deficiency) of revenue over expenses for the year	\$ (3,834,085)	\$ 26,273,532

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

Stewardship Ontario Statement of Cash Flows

For the year ended December 31	2013	2012
		(Note 13)
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	\$ (3,834,085)	\$ 26,273,532
Adjustments to reconcile excess (deficiency) of revenue over expenses for the year to cash provided by operating activities		
Amortization of capital assets	335,177	485,507
Non-cash component of investment income	786,591	445,406
Gain on sale of intangible asset	(218,903)	-
Allowance for convertible loans receivable	1,500,000	-
Changes in non-cash working capital balances:		
Accounts and other receivables	23,787,966	(28,118,274)
Prepaid expenses and deposits	122,843	(166,413)
Long term receivables	5,090,880	(6,642,584)
Accounts payable and accrued liabilities	(19,648,918)	(4,482,782)
Deferred revenue	(4,025,141)	7,984,343
	<u>3,896,410</u>	<u>(4,221,265)</u>
Investing activities		
Purchase of investments	(23,742,125)	(36,771,826)
Proceeds from investments	19,279,314	49,264,057
Purchase of capital assets	(3,809)	(854,953)
Convertible loans receivable	-	(3,000,000)
	<u>(4,466,620)</u>	<u>8,637,278</u>
Increase (decrease) in cash during the year	(570,210)	4,416,013
Cash, beginning of year	<u>7,535,772</u>	<u>3,119,759</u>
Cash, end of year	\$ 6,965,562	\$ 7,535,772
Non-cash transactions		
Sale of intangible asset (Note 4)	\$ 1,650,000	\$ -

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

Stewardship Ontario Notes to Financial Statements

December 31, 2013

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. The Organization is a not-for-profit organization and as such is not subject to income taxes.

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 3(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 has reimbursed the Organization for all costs deemed appropriate for the management of the materials introduced under the MHSW program (Phase II/III) (see Note 3(a)).

Stewardship Ontario Notes to Financial Statements

December 31, 2013

1. Significant Accounting Policies - (Continued)

(b) Basis of Accounting

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

(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, 2013

1. Significant Accounting Policies - (Continued)

(f) Impairment of Long-Lived Assets

The Organization monitors events or changes in circumstances which may require an assessment of the recoverability of its long lived assets. In the event that facts and circumstances indicate that the Organization's long-lived assets may be impaired, an evaluation of recoverability would be performed. Such an evaluation entails comparing the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write down to market value or discounted cash flow value is required.

(g) 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 the reported amounts of revenues and expenses during the reporting period. Significant estimates include estimates of unreported tonnages and collectability of steward fees, accrued post collection costs and the valuation of accounts receivable, investments and convertible loans receivable. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. Investments

	2013	2012
Cash held with broker	\$ 711,598	\$ 466,181
Money market pooled funds	5,786,921	5,722,726
Guaranteed investment certificate	23,773,669	20,922,314
Bonds	50,350,166	49,834,912
Common shares, private company	500,000	500,000
	<u>81,122,354</u>	<u>77,446,133</u>
Less: Current portion	37,733,193	32,126,192
	<u>\$ 43,389,161</u>	<u>\$ 45,319,941</u>

Money market pooled funds, guaranteed investment certificates and bonds bear interest at 1.25% to 4.90% (2012 - 1.25% to 5.30%) and mature between March 2014 and April 2022 (2012 - May 2013 and April 2020). The decrease in market value of investments for the year ended December 31, 2013 amounted to \$921,971 (2012 - \$1,399,861) which is included in investment income (Note 9).

The Organization owns 544,818 common shares of a company representing a 8.45% ownership at December 31, 2013. The company is privately owned with no common share prices quoted in an active market.

Stewardship Ontario Notes to Financial Statements

December 31, 2013

3. Accounts and Other Receivables

	2013	2012
Blue Box and MHSW program steward fees	\$ 21,308,657	\$ 27,441,383
MHSW program fees (Phase II/III) (a)	-	17,341,333
MHSW deficit recovery fees (Phase I) (b)	6,822,082	11,956,652
Other	24,509	25,326
Allowance for doubtful accounts	(527,500)	(258,100)
	27,627,748	56,506,594
Less: Current portion	26,076,044	49,864,010
	\$ 1,551,704	\$ 6,642,584

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

During 2013, the Minister of the Environment paid all remaining operating costs incurred by the Organization related to the materials covered by the expansion of the Consolidated MHSW Program.

(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 which commenced on May 15, 2012.

4. Loan Receivable and Significant Contracts

	2013	2012
Loan receivable	\$ 1,650,000	\$ -
Less: Current portion	330,000	-
	\$ 1,320,000	\$ -

During the year, the Organization entered into an agreement with Canadian Stewardship Services Alliance Inc. ("CSSA") to sublicense its original intellectual property licenses and intellectual property associated therewith, being the Enterprise Information System, for consideration of \$1,650,000. This agreement expires in 2023 with the option to renew for an additional five year period. The sale of the Enterprise Information System resulted in a gain on sale of intangible asset of \$218,903, which is included in the statement of operations. Thereafter, the Organization entered into an arrangement with CSSA to use the intellectual property. During the year, the Organization incurred costs of \$310,376 relating to this arrangement and is included in accounts payable and accrued liabilities at December 31, 2013.

Included in loans receivable is a loan to CSSA that bears interest at the bank prime rate and is repayable in five annual principal payments of \$330,000.

Stewardship Ontario Notes to Financial Statements

December 31, 2013

4. Loan Receivable and Significant Contracts - (Continued)

On December 31, 2013, several key management personnel at the Organization were terminated and many of the staff were hired by CSSA. Effective January 1, 2014, the Organization entered into a Management Services Agreement with CSSA to provide management, administrative and technical support, other services and facilities for administrative, technical and reporting activities.

Certain members of the CSSA board of directors are also members of the Organization's board of directors that account for approximately 21% of the Organization's board membership.

5. Capital Assets

	2013		2012	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Property, plant and equipment				
Computer equipment	\$ 134,071	\$ 110,266	\$ 130,262	\$ 88,743
Furniture and fixtures	459,785	220,085	459,785	128,128
	593,856	330,351	590,047	216,871
Intangible asset				
Enterprise Information System (Note 4)	-	-	2,660,366	1,007,571
	593,856	330,351	3,250,413	1,224,442
Net carrying amount		\$ 263,505		\$ 2,025,971

Stewardship Ontario Notes to Financial Statements

December 31, 2013

6. Convertible Loans Receivable

	2013	2012
Convertible loan, private company	\$ 1,500,000	\$ 1,500,000
Convertible loan, private company	1,500,000	1,500,000
Allowance for convertible loans	(1,500,000)	-
	\$ 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.

During the year, the Organization recognized an allowance for doubtful loans of \$1,500,000 relating to the convertible loans as there is uncertainty relating to the collectability of the balances owing.

7. Deferred Revenue

	2013	2012
Blue Box Program		
Glass Market Development Fund	\$ 666,017	\$ 666,017
Effectiveness & Efficiency Fund	965,507	964,965
Continuous Improvement Fund	31,879,962	35,905,645
	33,511,486	37,536,627
MHSW Program		
Deferred Revenue	9,139,543	9,139,543
	\$ 42,651,029	\$ 46,676,170

Deferred revenue in the Blue Box Program represents unspent resources that are externally restricted for various programs. During the year, the Continuous Improvement Fund ("CIF") received net contributions of \$1,494,478 (2012 - \$4,852,658) and spent \$5,520,161 (2012 - \$5,989,733) on continuous improvement activities.

Stewardship Ontario Notes to Financial Statements

December 31, 2013

7. Deferred Revenue - (Continued)

Each year, the Organization is directed to hold back a portion of the municipal blue box obligation for the 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.

Deferred revenue for the MHSW program (Phase I) represents fee revenue billed in the first quarter of 2012 and is deferred until future periods in accordance with the Organization's revenue recognition policy (Note 1(c)). This policy changed in 2012 after the issuance of Ontario Regulation 11/12 that requires MHSW program (Phase I) invoices to be issued on a cost recovery basis.

8. Internally Restricted Net Assets

	2013	2012
Sustaining Fund	\$ 3,500,000	\$ 3,500,000
Plastic Market Development Fund	6,055,548	7,774,591
Blue Box Fund	1,649,520	1,650,000
Fibre Market Development Fund	495,440	500,000
Oil Filter Surplus Fund	5,194,789	-
Battery Surplus Fund	1,839,646	-
	\$ 18,734,943	\$ 13,424,591

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 \$Nil (2012 – \$3,000,000), \$219,043 (2012 – \$794,178) was spent on plastics market development activities and \$1,500,000 was recognized as a bad debt expense (Note 6).

The directors authorized the establishment of the Blue Box Fund to support future efficiency in the Blue Box supply chain and therefore internally restricted \$1,650,000 in 2012 for this purpose. During the year, \$480 (2012 – \$nil) was spent on Blue Box supply chain activities.

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 in 2012 for this purpose. During the year, \$4,560 (2012 – \$nil) was spent on fibre market development activities.

During the year, the directors authorized the establishment of the Oil Filter Surplus Fund to support the safe disposition of oil filters and internally restricted \$5,194,789.

During the year, the directors authorized the establishment of the Battery Surplus Fund to support the safe disposition of batteries and internally restricted \$1,839,646.

Stewardship Ontario Notes to Financial Statements

December 31, 2013

9. Investment Income

	2013	2012
Interest income	\$ 2,370,380	\$ 3,162,834
Loss on sale of investments	(196,382)	(644,233)
	2,173,998	2,518,601
Adjustment to fair value	(921,971)	(1,399,861)
Investment expenses	(162,965)	(160,453)
	\$ 1,089,062	\$ 958,287

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.

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, 2013, 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 ("CIF") as projects were completed. At December 31, 2013, the E&E Fund balance is \$965,507. During the year, no funds were transferred to the CIF.

Stewardship Ontario Notes to Financial Statements

December 31, 2013

11. Commitments - (Continued)

(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. Currently, five percent 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, 2013, approved project funding and related commitments for the CIF amounted to approximately \$17,100,000 of the total fund balance of \$31,879,962.

(d) Realty Lease Agreements

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

2014	\$ 377,900
2015	359,400
2016	360,000
2017	<u>160,700</u>
	<u>\$ 1,258,000</u>

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, unless otherwise noted. 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.

Stewardship Ontario Notes to Financial Statements

December 31, 2013

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

(b) Credit Risk:

Financial instruments potentially exposed to credit risk include cash, investments, accounts and other receivables, long term receivables, loan receivable 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 and other receivables, loans receivable and long term receivables are not significantly concentrated, monitored regularly for collections, and the carrying amount represents the maximum credit risk exposure. The Organization's provision for uncollectable convertible receivables and loans receivable is approximately \$2,027,500 (2012 - \$271,000).

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.

(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)).

Stewardship Ontario Notes to Financial Statements

December 31, 2013

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

(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. Prior Period Adjustment

During 2012, the Organization transitioned from a fee-setting methodology in the Consolidated MHSW Program Plan (Phase 1) to a market share methodology (Note 1(a)). As a result of the transition, stewards were invoiced in advance during the first quarter of 2012 under the fee-setting methodology and invoiced for the first quarter's operating costs under the cost recovery methodology. At December 31, 2012, the amount of \$9,139,543 relating to the first quarter's operating costs recovered was recognized as a reduction in accounts receivable. It was subsequently determined that these funds should be recognized as revenue at the end of the program. Therefore, an adjustment was recorded to reclassify the funds received from accounts receivable to deferred revenue at December 31, 2012.

During the year, the Organization recovered MHSW program fees from the Ministry of the Environment (Note 1(a)) including \$5,652,006 that was written off during 2012. Therefore, an adjustment was recorded to reverse the bad debt write down and recognize the amount receivable from the Ministry of the Environment at December 31, 2012.

The following table shows the impact of prior period adjustments on the financial statements. There was no significant impact on the cash flows of the Company:

**Stewardship Ontario
Notes to Financial Statements**

December 31, 2013

13. Prior Period Adjustment - (Continued)

	As Originally Reported	Deferred Revenue Adjustment	Bad Debt Write-off Adjustment	Total Adjustment	Restated
Balance Sheet as at December 31, 2012					
Accounts and other receivables	\$ 35,072,481	\$ 9,139,543	\$ 5,652,008	\$ 14,791,549	\$ 49,864,010
Deferred revenue	37,536,627	9,139,543	-	9,139,543	46,676,170
	<u>\$ (2,464,166)</u>	<u>\$ -</u>	<u>\$ 5,652,008</u>	<u>\$ 5,652,008</u>	<u>\$ 3,187,840</u>
Statement of Operations For the year ended December 31, 2012					
Bad debt expense	\$ 5,652,008	\$ -	\$ (5,652,008)	\$ (5,652,008)	\$ -
Statement of Changes in Net Assets For the year ended December 31, 2012					
Opening balance	\$ 19,708,312	\$ -	\$ -	\$ -	\$ 19,708,312
Excess of revenue over expenses for the year	20,621,526	-	5,652,008	5,652,008	26,273,532
Ending balance	<u>\$ 40,329,838</u>	<u>\$ -</u>	<u>\$ 5,652,008</u>	<u>\$ 5,652,008</u>	<u>\$ 45,981,844</u>



Thinking
beyond
the box

Stewardship Ontario

Report Close