



Thinking  
beyond  
the box

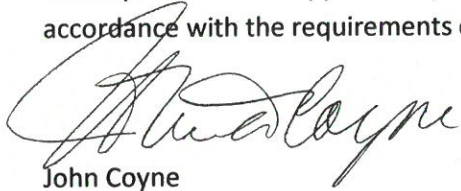
Stewardship Ontario

## **RPRA Filing on 2016 Program Performance**

March 23, 2017

**Signature of the Chair of the Board of Directors**

This report has been approved by the Stewardship Ontario Board of Directors for submission to Resource Productivity and Recovery Authority (RPRA) in accordance with the requirements of the *Waste Diversion Transition Act, 2016*.

A handwritten signature in black ink, appearing to read "John Coyne", written in a cursive style.

John Coyne

Chair

Stewardship Ontario Board of Directors

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## **Section 1**

# **2016 Blue Box Program Performance**

# Blue Box Performance Report for 2016

## **Background and Stakeholder Consultation**

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](http://www.stewardshipontario.ca) and the Resource Productivity and Recovery Authority (RPR) website at <http://www.rpra.ca/Library/WDO-Historical/Programs-Plans/Blue-Box-Program>.

Stewardship Ontario presented the Blue Box Program performance and fee schedule for 2017 to stewards on October 26, 2016. Relevant documentation, which includes a discussion paper, presentations and Q&As can be found at <http://www.stewardshipontario.ca/engagement/information-sessions/>.

## **Steward Registration, Reporting & Audit**

Steward registration for the Blue Box program totalled 1,903 stewards as of December 31, 2016.

The total number of Blue Box steward reports received in 2016 was 1,360 (versus 1,364 in 2015).

The total fees invoiced to the reporting Blue Box stewards in 2016 were \$122,872,314 (versus \$111,777,857 in 2015). These are the fees reported in Stewardship Ontario's Statement of Operations. The increase in 2016 reflects the increased steward payment obligation to municipalities, as determined by Waste Diversion Ontario. Note that steward reports for any prior year's obligations are captured in the year that the reporting takes place.

2016 marked the fifth year of Stewardship Ontario's current compliance review program, the framework of which was designed in cooperation with Deloitte LLP, and was built upon the best practices from European EPR jurisdictions. The criteria for selecting stewards for review gives higher priority to improving overall confidence in the quality of reporting, rather than simply achieving a defined tonnage target. Fifteen compliance reviews relating to 2015 reports were launched in late 2015, with all but one review completed. Compliance is actively working with the steward to complete the one remaining review.

## **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.

Stewardship Ontario continues to exceed the 60% government-mandated recycling target, and saw a mild year-over-year decrease in the general recycling rate from 64.9% to 64.0%. Stewardship Ontario attributes the decrease in tonnes recycled to the shift from paper to plastic (i.e. lightweighting).

While recycled tonnes reported in 2015 (the most recent data year) showed a decline of 3.6% versus 2014, the recycled kilograms per capita declined slightly more at 4.4%. This is the result of both population growth and the reduction of generated/supplied tonnes. All else being equal, light weighting will continue to result in a downward trend of recycled kilograms per capita over time.

| Province                                | Ontario<br>2015 | Ontario<br>2014 | YoY Variance % |
|---|-----------------|-----------------|----------------|
| <b>Recycling Performance</b>            |                 |                 |                |
| Recycled Tonnes                         | 852,437         | 884,504         | -3.6%          |
| Generated Tonnes                        | 1,332,544       | 1,361,930       | -2.2%          |
| Recycling Rate                          | 64.0%           | 64.9%           | -1.5%          |
| Provincial Recycling Target             | 60.0%           | 60.0%           |                |
| Population Served by PPP Program        | 13,465,269      | 13,358,776      | 0.8%           |
| Recycling kg per Capita                 | 63.31           | 66.21           | -4.4%          |
| <b>Accessibility Performance</b>        |                 |                 |                |
| # Households Serviced                   | 5,427,113       | 5,365,378       | 1.2%           |
| % Households with Access to PPP Program | 97.6%           | 97.3%           | 0.4%           |
| P&E Cost per Capital                    | \$0.55          | \$0.52          | 5.7%           |
| Consumer Awareness                      | 97.0%           | 97.0%           | 0.0%           |

### **Program Cost**

The overall net cost of the Blue Box recycling system increased by 4.3% or \$10.8M from 2014 to 2015; the net cost per capita increased by 3.4%. The primary reason for this increase in costs is the higher collection and processing expenses.

| Metric                  | 2015          | 2014          | YoY Variance % |
|-------------------------|---------------|---------------|----------------|
| <b>Cost Performance</b> |               |               |                |
| Recycled Tonnes         | 852,437       | 884,504       | -3.6%          |
| Net Cost                | \$263,726,504 | \$252,936,907 | 4.3%           |
| Net Cost per Tonne      | \$309         | \$286         | 8.2%           |
| Net Cost per Capita     | \$20          | \$19          | 3.4%           |
| Recycled kg per capita  | 63.3          | 66.2          | -4.4%          |

## **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)”.

The key to market development for recyclable material commodity markets is sustainability. Over the past nine years, Stewardship Ontario has put considerable funds and effort into researching, investing and nurturing markets for materials such as mixed rigid plastics and film plastic, and more recently laminated packaging, mixed broken glass and hot beverage cups. Efforts in developing markets and ensuring their sustainability are, as ever, on-going and Stewardship Ontario staff work to stay at the forefront of evolving technologies and approaches to ensure our market development activities result in tangible and measureable results. Highlights of our work over the last 12 months are summarized below.

### **Mixed Broken Glass**

While we have limited control over some market factors, such as consumer behaviour and participation in recycling, other factors can be influenced, such as quality control in Material Recovery Facilities (MRFs). Work with MRFs has greatly influenced the ability of re-processors to effectively manage mixed broken glass (MBG). During the year, the Continuous Improvement Fund (CIF) prepared and delivered WDO and the MOECC reports on the history and current state of MBG in Ontario. The CIF Committee also identified projects to assist in managing quality issues at various MRFs including equipment upgrades and modifications that will reduce contamination and processing levies if effective. This work will continue through 2017.

### **Capturing More Materials from Around the Home**

In 2016, Stewardship Ontario continued to undertake Curbside and Multi-Family Waste Composition Studies. These studies provide insight for both industry and municipalities on what printed paper and packaging materials residents are actively sorting for recycling. There were nine municipalities participating in these studies, with four locations also providing multi-family waste audits. The data from these studies also provides very important information on the changing mix of materials in the Blue Box stream. This information can be used by both municipalities and industry to plan ahead for program requirements to manage this changing mix. To further bolster the data found at the curb, MRF Material Composition and Density Studies were completed at four Ontario MRFs over two

seasons. Stewardship Ontario updated and provided a series of creative collateral to municipalities for their use in their promotion and education campaigns. A new creative campaign was also designed in 2016. . Creative collateral is made available to all municipalities on the Stewardship Ontario website.

### Composite Paper Packaging (CPP)

CPP is a form of packaging that is rapidly gaining popularity. By layering high quality fibre with film plastic, and in some cases aluminium, product manufacturers can create a more shelf stable package that is generally smaller in size and creates efficiencies in both transport and shelf space with the retailer. Recycling of these multi-layered packages requires more effort than conventional single-material type packages such as boxboard or cardboard. It is estimated that the amount of composite paper packaging will triple over the next 10 years, replacing materials such as steel, aluminium and glass.

Stewardship Ontario, in partnership with The Carton Council of Canada and Tim Horton's, has been working on a multi-phase project to ensure there are stable markets for all materials that can be captured within this commodity grade (currently known as PSI-52) and to work with these markets to expand what can be accepted within it.

This grade of material has historically been predominantly made up of polycoat gable-top and aseptic containers. Working with mills to expand this grade to include all polycoat containers (cups, tubs etc.) is integral to ensuring this packaging type made of high grade fibre is not lost to lower value commodities. Further to the work done in 2014 and 2015, SO in conjunction with TiTech (equipment manufacturer), worked to improve on the programming of Emterra's optical sorters in order to improve capture rates of these materials. Results of these tests were presented to Tim Hortons and Emterra. Further work remains on this project to understand the viability in other MRFs.

### Plastic Laminates

Similarly to the CPP packaging emergence on the market, plastic laminates are also becoming a very popular packaging choice. At this point in time there are no end-processing solutions in North America. Stewardship Ontario has been working with CIF, CPIA and PAC Next to research and test end-markets for flexible laminate packaging and continues to work with industry partners on discussing ways to manage flexible film plastic and plastic laminates in both the MRF setting and at the end-markets.



## **Section 2**

# **2016 MHSW Program Performance**

# MHSW Performance Report for 2016

## **Background and Stakeholder Consultation**

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 2016, Stewardship Ontario participated in partnership with Product Care Association in an information session regarding the pesticides, solvents and fertilizers Industry Stewardship Plan (ISP) with the aim of educating stewards about the ISP and explaining the exiting process to leave Stewardship Ontario and join the Product Care ISP.

Stewardship Ontario also met with material-specific steward groups to review program performance of those material categories.

## **Steward Registration, Reporting & Audit**

Steward registration for the MHSW program totalled 538 stewards as of December 31, 2016.

Total number of MHSW steward reports received in 2016 was 1,704 (versus 1,937 in 2015).

The total fees invoiced to the reporting MHSW stewards in 2016 were \$32,955,358. In 2015, \$40,739,927 was invoiced to reporting MHSW stewards. These are the fees as stated in Stewardship Ontario’s Statement of Operations. The decline is due to a large number of stewards exiting the MHSW Program to participate in ISPs. Note that steward reports for any prior year’s obligations are captured in the year that the reporting takes place.

In 2016, thirteen reviews specific to oil filters, antifreeze and oil containers were initiated through the Used Oil Association. Seven of these reviews are now closed, and the remaining six reviews are expected to be closed in the first quarter of 2017. The criteria used for selecting stewards for audits gives higher priority to improving overall confidence in the quality of reporting, rather than simply achieving a defined volume target.

## **Vendor Registration**

Only service providers that are approved by Stewardship Ontario are eligible to perform material management activities. All approved Stewardship Ontario service providers must adhere to vendor standards, policies and procedures established by Stewardship Ontario. Visit [www.stewardshipontario.ca](http://www.stewardshipontario.ca) for the most up-to-date list of approved service providers.

Stewardship Ontario is dedicated to continuous improvement of its reverse supply chain. Regular reviews of existing programs, processes and payment rates are undertaken to ensure cost effective program delivery and the achievement of collection and recycling targets. As a result, the actual methods, tactics and programs by which Stewardship Ontario undertakes its material management activities change over time as market conditions evolve. Commercial arrangements may include, but are not limited to, contracting for services following a request for qualifications or a request for proposals, contracting for services as a result of sole source negotiation, incentive programs and/or direct delivery of services.

Stewardship Ontario's responsibilities and duties include fostering a marketplace that maintains and encourages competition, achieves efficiencies and cost-effectiveness and ensures that all industry service providers have a fair and equitable opportunity to participate in the provision of services.

Commercial service providers registered for MHSW material management:

|                              | <b>Transporters</b> | <b>Processors</b> |
|------------------------------|---------------------|-------------------|
| Approved SO Vendors          | 40                  | 37                |
| New Vendor Reviews Completed | 4                   | 4                 |
| New Studies                  | Automotive Plastics |                   |

SO has had significant reduction in amount of approved transporters and processor over the past two years due to the removal of supply chain functions for paint, pesticides, solvents and fertilizers. There will be more still in 2017 with the transition of automotive materials to AMS.

## **Accessibility**

The following chart details consumer accessibility by collector type for MHSW in 2016:

| <b>Channel - Activity</b>               | <b>2016 Actual</b> |
|---|--------------------|
| Municipal – Depot                       | 89                 |
| Municipal – Events                      | 313                |
| Automotive – Commercial Sites           | 12,000+            |
| Automotive – Do It Yourself (DIY) Sites | 985                |
| Return-to-Retail (R2R)                  | 30                 |
| Battery Incentive Program (BIP)         | 5,340              |
| Provincial Parks Program                | 102                |

In 2016 there were over 790 new collection sites added. These sites were from the Battery Incentive Program and the Automotive – DIY channels.

## **Industry Stewardship Plans**

On December 10, 2014, the Waste Diversion Ontario (WDO) Board approved an Industry Stewardship Plan (ISP) for paint and coatings. Product Care Association (PCA) assumed the supply chain management of one of the nine Municipal Hazardous or Special Waste (MHSW) materials currently managed by Stewardship Ontario on June 30, 2015.

On October 28, 2015, WDO approved an ISP for pesticides, solvents and fertilizers to be managed by PCA. PCA assumed the supply chain management of three of the Municipal Hazardous or Special Waste (MHSW) materials currently managed by Stewardship Ontario on April 1, 2016.

On August 10, the WDO Board approved Automotive Materials Stewardship (AMS) ISP to manage automotive materials (antifreeze/antifreeze containers, oil filters, and oil containers) with an effective date of no sooner than January 1, 2017. On December 20, the Resource Productivity and Recovery Authority confirmed the ISP effective date to be April 1, 2017.

## Program Performance Against Targets

### 2016 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                              | 4,539                    | 50%                        | 2,270         | 3,267                    | 72%                        | 997                         | 3,280               | -13                             |
| Fertilizers                             | 41                       | n/a                        | n/a           | 5                        | 12%                        | n/a                         | 27                  | -22                             |
| Oil Containers                          | 3,101                    | 52%                        | 1,612         | 3,921                    | 126%                       | 2,308                       | 3,730               | 191                             |
| Oil Filters                             | 9,739                    | 85%                        | 8,278         | 8,983                    | 92%                        | 705                         | 9,150               | -167                            |
| Paints & Coatings (incl. Aerosols)      | 96                       | 77%                        | 74            | 0                        | 0%                         | (74)                        | 4,604               | -4,604                          |
| Pesticides                              | 50                       | 57%                        | 28            | 7                        | 14%                        | (22)                        | 39                  | -32                             |
| Pressurized Containers (Non-Refillable) | 700                      | 46%                        | 322           | 312                      | 45%                        | (10)                        | 339                 | -27                             |
| Pressurized Containers (Refillable)     | 417                      | 98%                        | 409           | 409                      | 98%                        | -                           | 458                 | -49                             |
| Single-Use Batteries                    | 6,647                    | 40%                        | 2,659         | 3,226                    | 49%                        | 568                         | 2,330               | 896                             |
| Solvents                                | 1,465                    | 46%                        | 674           | 100                      | 7%                         | (574)                       | 427                 | -327                            |

Notes: *Oil Containers performed at 126% of target due to high levels of contamination. Field studies were conducted during 2016 to better quantify contamination. So far, contamination levels are approximately 10% by weight.*

## 2016 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                              | 4,539                    | 50%                       | 2,270         | 3,267                   | 72%                       | 997                         | 3,280               | -13                             |
| Fertilizers                             | 41                       | n/a                       | n/a           | n/a                     | n/a                       | n/a                         | n/a                 | n/a                             |
| Oil Containers                          | 3,101                    | 52%                       | 1,612         | 3,921                   | 126%                      | 2,308                       | 3,730               | 191                             |
| Oil Filters                             | 9,739                    | 85%                       | 8,278         | 8,983                   | 92%                       | 705                         | 9,150               | -167                            |
| Paints & Coatings (incl. Aerosols)      | 96                       | 62%                       | 59            | n/a                     | 0%                        | -59                         | 3,315               | -3,315                          |
| Pesticides                              | 50                       | n/a                       | -             | n/a                     | n/a                       | n/a                         | n/a                 | n/a                             |
| Pressurized Containers (Non-Refillable) | 700                      | 46%                       | 322           | 312                     | 45%                       | -10                         | 339                 | -27                             |
| Pressurized Containers (Refillable)     | 417                      | 98%                       | 409           | 409                     | 98%                       | 0                           | 458                 | -49                             |
| Single-Use Batteries                    | 6,647                    | 28%                       | 1,888         | 2,775                   | 42%                       | 887                         | 2,004               | 771                             |
| Solvents                                | 1,465                    | 6%                        | 88            | 9                       | 1%                        | -79                         | 93                  | -84                             |

Notes:

*Oil Containers performed at 126% of target due to high levels of contamination. Field studies were conducted during 2016 to better quantify contamination. So far, contamination levels are approximately 10% by weight.*

## 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, return to retail, 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 2016 fell into the following key areas:

| Activity Type                |
|------------------------------|
| Battery Advertising Campaign |
| Channel Advertising Support  |
| On the Go Magazine Ad Buy    |
| Social Media                 |

### **Battery Recycling Advertising Campaign**

The primary investment in P&E for 2016 was material-specific for batteries. The 2016 advertising campaign built upon the campaigns run for the last three years, and ran in two phases: spring and fall. Mediums included:

- **Radio** – 792 spots
- **Billboards**. 25 (four of which were digital billboards)
- **Cineplex Video**: 215 screens in both spring and fall phases
- **Go Transit**: 680 posters
- **TTC**: 760 posters
- **Online** – advertising on the Weather Network, resulting in 5,447 clicks

The campaign generated 56,628,821 total impressions.

### **Channel Advertising Support**

The Orange Drop Program continued to partner with Ontario Parks this year. We placed an ad in the Ontario Parks Guide with a circulation of 500,000 English versions and 50,000 French versions. They are distributed widely across Ontario through corporate retail, tourist information centres, chambers of commerce, and other service sector outlets. Our used propane tank drop cages also continue to be at participating parks.

### **On the Go Magazine Ad Buy**

In March 2016, we developed a full page ad and editorial for *On the Go Magazine* reminding residents to bring their hazardous and special waste materials to depots. The ad buy also included 102,660 commercials that replicated our magazine ad on screens throughout Toronto's PATH and Gateway/International Newsstands.

### **Social Media**

We have continued to develop content for Orange Drop's social media channels in order to increase following and engagement with residents. Facebook and Twitter posts raised awareness around our battery campaign, shared recycling tips and tricks, reminded residents of our locator tool on our website and encouraged proper recycling of Orange Drop materials. Our social media activity has developed an increased following and facilitated ongoing interactions with residents. Our posts generated over 179,600 impressions throughout the year, with a combined total of 2,917 followers on Twitter and Facebook.



## **Section 3**

# **2016 Audited Financial Statements**

# **Stewardship Ontario**

## **Financial Statements**

**For the year ended December 31, 2016**

# Stewardship Ontario

## Financial Statements

For the year ended December 31, 2016

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## Independent Auditor's Report

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### 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, 2016, and the statements 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, the financial statements present fairly, in all material respects, the financial position of Stewardship Ontario as at December 31, 2016, 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 Professional Accountants, Licensed Public Accountants

March 23, 2017  
Toronto, Ontario

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

## Stewardship Ontario Balance Sheet

**December 31** **2016** **2015**

### Assets

#### Current

|   |               |               |
|---|---------------|---------------|
| Cash                                    | \$ 34,087,469 | \$ 27,098,855 |
| Investments (Note 2)                    | 20,278,089    | 20,086,796    |
| Accounts and other receivables (Note 3) | 15,449,300    | 14,811,812    |
| Loan receivable (Note 4)                | -             | 330,000       |
| Prepaid expenses and deposits           | <u>35,768</u> | <u>15,444</u> |

#### Capital assets (Note 5)

#### Investments (Note 2)

#### Loan receivable (Note 4)

|  |               |                |
|--|---------------|----------------|
|  | 69,850,626    | 62,342,907     |
|  | <u>39,689</u> | <u>86,920</u>  |
|  | 39,891,939    | 39,178,621     |
|  | <u>-</u>      | <u>660,000</u> |

**\$ 109,782,254** **\$ 102,268,448**

### Liabilities and Net Assets

#### Current

|   |                   |                   |
|---|-------------------|-------------------|
| Accounts payable and accrued liabilities (Note 4) | \$ 37,607,160     | \$ 32,043,519     |
| Deferred revenue (Note 7)                         | 9,805,560         | 9,805,560         |
| CIF fund (Note 8)                                 | <u>27,284,448</u> | <u>28,011,710</u> |

**74,697,168** **69,860,789**

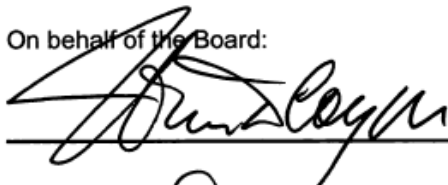
#### Net Assets


|                                |                  |                   |
|--------------------------------|------------------|-------------------|
| Invested in capital assets     | 39,689           | 86,920            |
| Unrestricted                   | 25,134,289       | 21,670,137        |
| Internally restricted (Note 9) | <u>9,911,108</u> | <u>10,650,602</u> |

**35,085,086** **32,407,659**

**\$ 109,782,254** **\$ 102,268,448**

On behalf of the Board:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

## Stewardship Ontario Statement of Changes in Net Assets

**For the year ended December 31, 2016**

|  | Invested in<br>Capital<br>Assets | Unrestricted         | Internally<br>Restricted | 2016<br>Total        |
|--|----------------------------------|----------------------|--------------------------|----------------------|
| Balance, beginning of year                                   | \$ 86,920                        | \$ 21,670,137        | \$ 10,650,602            | \$ 32,407,659        |
| Excess (deficiency) of revenue over<br>expenses for the year | (47,231)                         | 3,464,152            | (739,494)                | 2,677,427            |
| <b>Balance, end of year</b>                                  | <b>\$ 39,689</b>                 | <b>\$ 25,134,289</b> | <b>\$ 9,911,108</b>      | <b>\$ 35,085,086</b> |

**For the year ended December 31, 2015**

|  | Invested in<br>Capital<br>Assets | Unrestricted         | Internally<br>Restricted | 2015<br>Total        |
|--|----------------------------------|----------------------|--------------------------|----------------------|
| Balance, beginning of year                                   | \$ 162,039                       | \$ 20,372,953        | \$ 11,754,622            | \$ 32,289,614        |
| Excess (deficiency) of revenue over<br>expenses for the year | (75,119)                         | 1,297,184            | (1,104,020)              | 118,045              |
| <b>Balance, end of year</b>                                  | <b>\$ 86,920</b>                 | <b>\$ 21,670,137</b> | <b>\$ 10,650,602</b>     | <b>\$ 32,407,659</b> |

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

## Stewardship Ontario Statement of Operations

| For the year ended December 31                         | 2016                | 2015               |
|--|---------------------|--------------------|
| <b>Revenue</b>   |                     |                    |
| Blue Box program steward fees                          | \$122,872,314       | \$111,777,857      |
| MHSW program steward fees                              | 32,955,358          | 40,739,927         |
| Investment income (Note 10)                            | 1,000,053           | 1,236,184          |
|  | <b>156,827,725</b>  | <b>153,753,968</b> |
| <b>Expenses</b>  |                     |                    |
| Blue Box Program                                       |                     |                    |
| Municipal Transfer Payments                            | 110,833,044         | 105,641,403        |
| Continuous Improvement Fund (Note 12(b))               | 4,203,473           | 1,951,562          |
| Research and development                               | 132,383             | 264,341            |
| Promotion and education                                | 134,995             | 3,729              |
|  | <b>115,303,895</b>  | <b>107,861,035</b> |
| MHSW Program   |                     |                    |
| Direct material costs                                  | 27,596,535          | 32,448,085         |
| Promotion and education                                | 487,969             | 590,591            |
|  | <b>28,084,504</b>   | <b>33,038,676</b>  |
| Common costs   |                     |                    |
| Program management (Note 4)                            | 8,398,738           | 11,374,752         |
| Resource Productivity and Recovery Authority (Note 11) | 2,363,161           | 1,361,460          |
|  | <b>10,761,899</b>   | <b>12,736,212</b>  |
| Total expenses   | <b>154,150,298</b>  | <b>153,635,923</b> |
| <b>Excess of revenue over expenses for the year</b>    | <b>\$ 2,677,427</b> | <b>\$ 118,045</b>  |

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

## Stewardship Ontario Statement of Cash Flows

| For the year ended December 31   | 2016                 | 2015                 |
|--|----------------------|----------------------|
| <b>Cash provided by (used in)</b>  |                      |                      |
| <b>Operating activities</b>  |                      |                      |
| Excess of revenue over expenses for the year   | \$ 2,677,427         | \$ 118,045           |
| Adjustments to reconcile excess of revenue over expenses for the year to cash provided by operating activities |                      |                      |
| Amortization of capital assets   | 47,231               | 75,119               |
| Non-cash component of investment income  | 470,543              | 331,743              |
| Changes in non-cash working capital balances:  |                      |                      |
| Accounts and other receivables   | (637,488)            | 19,082,264           |
| Prepaid expenses and deposits  | (20,324)             | 5,616                |
| Accounts payable and accrued liabilities   | 5,563,641            | (8,720,509)          |
| CIF fund   | (727,262)            | (2,170,626)          |
|  | <b>7,373,768</b>     | <b>8,721,652</b>     |
| <b>Investing activities</b>  |                      |                      |
| Purchase of investments net of expenses  | (1,375,154)          | -                    |
| Proceeds from investments  | -                    | 12,336,900           |
| Repayments from loan receivable  | 990,000              | 330,000              |
| Repayments from convertible loans receivable   | -                    | 1,500,000            |
|  | <b>(385,154)</b>     | <b>14,166,900</b>    |
| <b>Increase in cash during the year</b>  | <b>6,988,614</b>     | <b>22,888,552</b>    |
| <b>Cash, beginning of year</b>   | <b>27,098,855</b>    | <b>4,210,303</b>     |
| <b>Cash, end of year</b>   | <b>\$ 34,087,469</b> | <b>\$ 27,098,855</b> |

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



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# Stewardship Ontario Notes to Financial Statements

**December 31, 2016**

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## 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.

On November 30, 2016, The Resource Recovery and Circular Economy Act (2016) ("RRCEA") was proclaimed along with the Waste Diversion Transition Act (2016) ("WDTA") which replaces the WDA. Under the RRCEA, WDO was continued under its new name, the Resource Productivity and Recovery Authority ("RPRA").

#### 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

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 Program Plan in November 2007. MHSW officially commenced operations July 1, 2008.

Ontario Regulation 11/12 took effect on April 1, 2012 where the Organization is required to apply a market share methodology to recover both ongoing operating costs and to recover past deficits that have accumulated over the course of the program. This cost recovery methodology is designed to result in an economically sustainable program.

### (b) Basis of Accounting

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

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# Stewardship Ontario Notes to Financial Statements

**December 31, 2016**

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## 1. Significant Accounting Policies - (Continued)

### (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 steward fees are recognized on a cost recovery basis when costs are incurred and collection is reasonably assured. Any revenue resulting from compliance and enforcement activities are recorded as revenue when the amount can be reasonably estimated and collection is reasonably assured.

The Organization follows the deferral method of accounting for revenues, including the Glass Market Development Fund. Amounts received for programs are recognized as revenue when the related expenses are incurred.

### (d) Financial Instruments

Fixed income investments 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 in private companies are carried at cost or 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 |

### (f) Impairment of Long-Lived Assets

When a long-lived asset no longer has any long-term service potential to the Organization, the excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations. Any unamortized deferred contribution amount related to the long-lived asset is recognized in revenue in the statement of operations, provided that all restrictions have been complied with.

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## Stewardship Ontario Notes to Financial Statements

**December 31, 2016**

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### 1. Significant Accounting Policies - (Continued)

(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 and investments. Actual results could differ from management's best estimates as additional information becomes available in the future.

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### 2. Investments

|  | <u>2016</u>          | <u>2015</u>          |
|--|----------------------|----------------------|
| Cash held with broker                          | \$ 775,070           | \$ 1,169,102         |
| Fixed income                                   | 59,394,958           | 58,096,315           |
| Common shares, private company                 | 500,000              | 500,000              |
| Impairment on common shares of private company | (500,000)            | (500,000)            |
|  | <u>60,170,028</u>    | <u>59,265,417</u>    |
| Less: Current portion                          | 20,278,089           | 20,086,796           |
|  | <u>\$ 39,891,939</u> | <u>\$ 39,178,621</u> |

Fixed income investments bear interest at 1.70% to 5.68% (2015 - 1.70% to 5.68%) and mature between July 2017 and January 2026 (2015 - June 2016 and August 2020). The decrease in market value of investments for the year ended December 31, 2016 amounted to \$61,388 (2015 - increase of \$33,468) which is included in investment income (Note 10).

## Stewardship Ontario Notes to Financial Statements

**December 31, 2016**

### 3. Accounts and Other Receivables

|  | 2016          | 2015          |
|--|---------------|---------------|
| Blue Box and MHSW program steward fees | \$ 15,492,142 | \$ 14,821,974 |
| Other                                  | 33,891        | 28,623        |
| Allowance for doubtful accounts        | (76,733)      | (38,785)      |
|  | \$ 15,449,300 | \$ 14,811,812 |

### 4. Significant Contracts and Loan Receivable

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 to CSSA, for consideration of \$1,650,000. This agreement expires in 2023 with the option to renew for an additional five year period.

Effective January 1, 2014, the Organization entered into a Management Services Agreement with CSSA for management, administrative and technical support, other services and facilities for administrative, technical and reporting activities. During the year, the Organization incurred costs of \$6,191,552 (2015 - \$8,224,645) for these services and are included in program management expenses. Included in accounts payable and accrued liabilities is \$508,959 (2015 - \$846,302) relating to these services.

Certain members of the CSSA board of directors are also members of the Organization's board of directors that account for approximately 18% (2015 - 17%) of the Organization's board membership.

The loan receivable was a loan to CSSA that bore interest at the bank prime rate and was repayable in five annual principal payments of \$330,000. CSSA repaid the loan during 2016. The Organization received interest of \$15,882 (2015 - \$34,926) during the year.

|                       | 2016 | 2015       |
|-----------------------|------|------------|
| Loan receivable       | \$ - | \$ 990,000 |
| Less: Current portion | -    | 330,000    |
|                       | \$ - | \$ 660,000 |

All transactions between the Organization and CSSA are in the normal course of operations and are recorded at their exchange amount as agreed upon by the parties.

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## Stewardship Ontario Notes to Financial Statements

**December 31, 2016**

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### 5. Capital Assets

|                        | 2016       |                             | 2015       |                             |
|------------------------|------------|-----------------------------|------------|-----------------------------|
|                        | Cost       | Accumulated<br>Amortization | Cost       | Accumulated<br>Amortization |
| Computer equipment     | \$ 106,688 | \$ 105,925                  | \$ 106,688 | \$ 102,675                  |
| Furniture and fixtures | 459,785    | 420,859                     | 459,785    | 376,878                     |
|                        | 566,473    | 526,784                     | 566,473    | 479,553                     |
|                        |            | \$ 39,689                   |            | \$ 86,920                   |

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### 6. Loan Receivable

During 2012, the Organization provided a \$1,500,000 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. The Organization recognized an allowance for doubtful loan of \$1,500,000 relating to the convertible loan as there is uncertainty relating to the collectability of the balance owing.

In May 2016, the convertible loan arrangement was terminated. As part of the termination, the company will make a loan payment to the Organization in the aggregated amount of \$300,000 of which \$150,000 is due in June 2017 and \$50,000 is due annually from June 2018 to June 2020 and is non-interest bearing. The Organization recognized an allowance for doubtful loan of \$300,000 relating to the loan as there is uncertainty relating to the collectability of the balance owing.

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## Stewardship Ontario Notes to Financial Statements

**December 31, 2016**

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### 7. Deferred Revenue

|                               | <u>2016</u>         | <u>2015</u>         |
|-------------------------------|---------------------|---------------------|
| Blue Box Program              |                     |                     |
| Glass Market Development Fund | \$ 666,017          | \$ 666,017          |
| MHSW Program                  |                     |                     |
| Deferred revenue              | <u>9,139,543</u>    | <u>9,139,543</u>    |
|                               | <u>\$ 9,805,560</u> | <u>\$ 9,805,560</u> |

Deferred revenue in the Blue Box Program represents unspent resources that are externally restricted for the Glass Market Development Fund. Commitments related to the Glass Market Development Fund are further explained in Note 12(a).

Deferred revenue for the MHSW program represents fee revenue billed in advance in the first quarter of 2012 and is deferred in accordance with the Organization's revenue recognition policy (Note 1(c)). This deferred revenue is expected to be recognized as revenue at the end of the program.

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### 8. Continuous Improvement Fund ("CIF")

Each year, the Organization is directed to hold back a portion of the municipal blue box obligation for the CIF; see Note 12(b) for further details regarding the fund. The CIF is managed by external parties and directs the Organization to release funds as required.

During the year, the CIF received net contributions of \$3,309,805 (2015 - \$2,991,059) and spent \$4,037,067 (2015 - \$4,196,178) on continuous improvement activities. The funds held by the Organization for the CIF are included in cash (2015 - investments).

## Stewardship Ontario Notes to Financial Statements

**December 31, 2016**

### 9. Internally Restricted Net Assets

|                                 | 2016                | 2015          |
|---------------------------------|---------------------|---------------|
| Sustaining Fund                 | <b>\$ 3,500,000</b> | \$ 3,500,000  |
| Plastic Market Development Fund | <b>4,964,379</b>    | 5,027,995     |
| Blue Box Fund                   | <b>1,066,151</b>    | 1,285,409     |
| Battery Surplus Fund            | <b>380,578</b>      | 837,198       |
|                                 | <b>\$ 9,911,108</b> | \$ 10,650,602 |

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 and therefore internally restricted \$3,500,000 for this purpose.

The directors authorized the establishment of the Plastic Market Development Fund for investment in infrastructure for plastic markets and activities for their development and therefore internally restricted funds for this purpose. During the year, \$63,616 (2015 - \$134,967) was spent on plastics market development activities.

The directors authorized the establishment of the Blue Box Fund to support future efficiency in the Blue Box supply chain and therefore internally restricted funds for this purpose. During the year, \$219,258 (2015 – \$364,111) was spent on these types of Blue Box activities.

The directors authorized the establishment of the Battery Surplus Fund to promote the safe disposition of batteries. During the year, \$456,620 (2015 - \$495,787) was spent on battery promotional and educational activities.

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## Stewardship Ontario Notes to Financial Statements

**December 31, 2016**

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### 10. Investment Income

|                             | 2016         | 2015         |
|-----------------------------|--------------|--------------|
| Interest income             | \$ 1,664,623 | \$ 1,760,069 |
| Loss on sale of investments | (409,155)    | (365,211)    |
|                             | 1,255,468    | 1,394,858    |
| Adjustment to fair value    | (61,388)     | 33,468       |
| Investment expenses         | (194,027)    | (192,142)    |
|                             | \$ 1,000,053 | \$ 1,236,184 |

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### 11. Resource Productivity and Recovery Authority (formerly 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 RPRA that relate to program oversight.

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### 12. 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, 2016, the Organization has spent \$2,235,508 (2015 - \$2,235,508) and the remaining balance is restricted for glass market development projects.

(b) 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 was created 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, 5% 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, 2016, approved project funding and related commitments for the CIF amounted to approximately \$22,711,221 of the total fund balance of \$27,284,448.

(c) Realty Lease Agreements

Under the terms of lease agreements, the Organization is committed to pay basic rent plus operating costs of approximately \$120,000 in 2017.



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# Stewardship Ontario Notes to Financial Statements

**December 31, 2016**

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## **13. 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) Credit Risk:

Financial instruments potentially exposed to credit risk include cash, investments, accounts and other receivables, and 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, guaranteed investment certificates or equity and bond pooled funds. Accounts and other 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 accounts, other receivables and loans receivable is approximately \$376,733 (2015 - \$1,538,785).

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. Prior to being permitted to join an ISP, a steward is expected to have no outstanding receivables. This is expected to minimize the Organization's credit risk.

(b) 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, securities backed by any chartered bank or equity and bond pooled funds), 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.

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## Stewardship Ontario Notes to Financial Statements

**December 31, 2016**

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### 13. Financial Instrument Risk Exposure and Management - (Continued)

(c) 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. Ontario Regulations related to the MHSW Program allow 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)).

(d) Market Risk:

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

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### 14. Contingencies

The Organization has been named as a defendant in a claim arising in the ordinary course of business. At this time, the outcome of the claim is not determinable and therefore an estimate of the Organization's liability, if any, cannot be made. Losses, if any, will be accounted for in the period they are determined.

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### 15. Comparative Figures

Certain comparative amounts have been reclassified to conform with the current year presentation.



Thinking  
beyond  
the box

Stewardship Ontario

**Report Close**