

RPRA Filing on 2017 Program Performance

March 28, 2018



Stewardship Ontario

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*.



John Coyne

Chair

Stewardship Ontario Board of Directors

Table of Contents

Section 1 2017 Blue Box Program Performance Blue Box Performance Report for 2017	4
Background and Stakeholder Consultation.....	5
Steward Registration, Reporting & Audit	5
Program Diversion Performance	6
Program Cost	7
Market Development.....	7
Mixed Broken Glass	8
Capturing More Materials from Around the Home	8
Plastic Laminates	8
Promotion and Education	9
Break the Cycle Campaign	9
Social Media.....	9
Section 2 2017 MHSW Program Performance MHSW Performance Report for 2017	10
Background and Stakeholder Consultation.....	11
Steward Registration, Reporting & Audit	11
Vendor Registration.....	12
Accessibility	12
Industry Stewardship Plans.....	13
Program Performance Against Targets	13
Promotion and Education	15
Propane Advertising Campaign	15
Social Media.....	15
Section 3 2017 Audited Financial Statements.....	16

Section 1

2017 Blue Box Program Performance

Blue Box Performance Report for 2017

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 and the Resource Productivity and Recovery Authority (RPRA) 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 31, 2017. Relevant documentation, including a discussion paper, presentations and Q&As from the meeting can be found at <http://www.stewardshipontario.ca/engagement/information-sessions/>.

On August 14, 2017 the Ontario Minister of Environment and Climate Change, Hon. Chris Ballard issued a letter directing Stewardship Ontario and the Resource Productivity and Recovery Authority (the Authority) to develop a proposal to amend the Blue Box Program Plan to support transition from the current shared responsibility model to full producer responsibility. In addition to setting out the terms of the transition between municipalities and producers in the letter, the Minister also provided further direction under a number of broad categories in an Addendum. This direction relates primarily to:

- Program Performance: The amended Plan will require a 75% recovery rate for PPP as well as a proposal for material-specific targets.
- Waste Reduction: Stewardship Ontario has been directed to develop means to discourage the use of problematic materials and/or to provide for increased diversion at the end-of-life.
- Continuous Improvement: Stewardship Ontario has been asked to provide consideration and recommendations for extending recycling services to multi-family buildings and public spaces.

The Minister requested the Authority and Stewardship Ontario to jointly develop a communications and issues management plan to ensure meaningful consultation, engagement and communication is conducted with affected stakeholders and Indigenous Peoples, including stewards, municipalities, First Nations communities and the waste management industry. A copy of the Stakeholder and Indigenous Peoples Engagement and Communications Plan and all other consultation materials are available on the Stewardship Ontario website at www.stewardshipontario.ca/a-bbpb. On December 19, 2017 the draft proposal for an amended [Blue Box Program Plan](#) was posted for stakeholder consultation.

Steward Registration, Reporting & Audit

Steward registration for the Blue Box program totalled 1,842 stewards as of December 31, 2017.

The total number of Blue Box steward reports received in 2017 was 1,407 (versus 1,360 in 2016).

Stewardship Ontario

The total fees invoiced to the reporting Blue Box stewards in 2017 were \$121,870,640 (versus \$122,872,314 in 2016). These are the fees reported in Stewardship Ontario's Statement of Operations. The decrease in 2017 is largely due to variations in reporting as fee revenue is 99.3% of budget as a result of steward adjustments. Note that steward reports for any prior year's obligations or changes to steward reports for prior years are captured in the year that the reporting or change takes place.

2017 marked the sixth year of Stewardship Ontario's current compliance review program, the framework of which was designed in cooperation with Deloitte LLP and PwC, 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 2016 Printed Paper and Packaging reports were launched in the spring of 2017 representing 14.49% of reported tonnes.

Program Diversion Performance

The Blue Box Program relies on the efforts of Ontario municipalities and First Nations communities to collect and market printed paper and packaging. Municipalities are paid 50% of the costs they incur as a result of the Blue Box Program.

Based on municipal reports through the RPRA Datacall, the Blue Box Program continues to exceed the 60% government-mandated target, and saw a slight year-over-year decrease in the general recycling rate from 64.0% to 62.4%. Stewardship Ontario attributes the decrease in the recycling rate to decreased marketed tonnes and increased generated tonnes. Marketed tonnes managed through the Blue Box saw a year-over-year decline of 1.9% due to less paper and newsprint being marketed. Recycled kilograms per capita decreased by 1.8%, reflecting the reduced tonnes managed. Generated tonnes, an estimate of the total quantity of residential printed paper and packaging available, increased slightly, driven by PET bottles, plastic laminates, and glass materials.

Province	Ontario 2016	Ontario 2015	YoY Variance %
Recycling Performance			
Recycled Tonnes	836,227	852,437	(1.9%)

Generated Tonnes	1,340,947	1,332,544	0.6%
Recycling Rate	62.4%	64.0%	(2.5%)
Provincial Recycling Target	60.0%	60.0%	0.0%
Population Served by PPP Program	12,814,578	12,830,228	(0.1%)
Recycling kg per Capita	65.3	66.4	(1.8%)
Accessibility Performance			
# Households Served	5,174,930	5,165,154	0.2%
% Households with Access to PPP Program	94.6%	95.3%	(0.7%)
Consumer Awareness	97.0%	97.0%	0.0%

Program Cost

The overall net cost of the Blue Box recycling system decreased by 2.0% or \$5.2M from 2015 to 2016; the net cost per tonne and per capita were steady with 2015 figures.

Province	Ontario 2016	Ontario 2015	YoY Variance %
Cost Performance			
Recycled Tonnes	836,227	852,437	(1.9%)
Net Cost	\$258,540,366	\$263,726,504	(2.0%)
Net Cost per Tonne	\$309	\$309	(0.1%)
Net Cost per Capita	\$20	\$21	(1.8%)
P&E Cost per Capita	\$0.64	\$0.58	9.7%

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

Two key elements that contribute to the successful expansion of markets for recyclable materials are ongoing investment in emerging technologies and collaboration with partners. 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 continue as Stewardship Ontario staff work to stay at the forefront of evolving technologies and approaches to ensure market development activities result in tangible and measureable results. Highlights of our work over the last 12 months are summarized below.

Mixed Broken Glass

In co-operation with the Continuous Improvement Fund, Stewardship Ontario is contributing funding to a glass collection pilot study. The focus of this project is to understand the financial and operational impact of collecting glass segregated from other curbside streams. This will look at different facets of collection including: overall costs, fleet requirements/costs/efficiency, materials recovery facilities (“MRF”) operations, changes in residue rates & contamination, potential glass value and impact on other commodity values. The project commenced in Q3/Q4 2017 and is broken into two phases. The first phase consists of research into different collection methods, with the second phase consisting of the actual pilot implementation. A report on the first phase of the project is due in early 2018.



Capturing More Materials from Around the Home

In 2017, 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 eight municipalities participating in these studies, with two locations also providing multi-family waste audits. The data from these studies 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 and resident communication to manage this changing mix. To further bolster the data found at the curb, MRF Material Composition and Density Studies were completed at five Ontario MRFs over two seasons. In response to these findings, Stewardship Ontario provided municipalities with a series of creative collateral for their use in their promotion and education campaigns. In 2017, a new wave of creative materials was designed focusing on contamination found in the recycling stream. Creative collateral prepared by Stewardship Ontario is made available for use by all municipalities on the Stewardship Ontario website.

Plastic Laminates

Flexible plastic laminate packaging is becoming an increasingly popular packaging choice however, at this time there is no known viable recycling technology for this material type. Stewardship Ontario has been collaborating with the Continuous Improvement Fund, Canadian Plastics Industry Association and PAC Next to research and test end-markets for flexible laminate packaging and continues to work with industry partners on exploring ways to manage flexible film plastic and plastic laminates in both the MRF setting and at end-markets.



Thinking
beyond
the box

Promotion and Education

Stewardship Ontario

Break the Cycle Campaign

As mentioned above, Stewardship Ontario continued in 2017 to provide advertising templates to municipalities for their own advertising purposes. Stewardship Ontario reached out to municipalities with a short survey asking them to identify their key recycling challenges for which they would like advertising templates prepared. Feedback received indicated that contamination in Blue Boxes is a key challenge for municipalities.

Stewardship Ontario worked with an advertising agency to create a P&E campaign targeting three specific areas of contamination in resident's Blue Boxes: organics, unaccepted items and dirty containers (the final print ads can be found below). Titled 'Break the Cycle', the campaign ran from August 20 until the end of September in newspapers, on the radio and as digital ads on The Weather Network and Facebook. The campaign generated just under 26 million impressions.

In Q4, Stewardship Ontario leveraged the summer Break the Cycle campaign to create a holiday version. The ad also ran in local newspapers across Ontario between December 26, 2017, and January 12, 2018.



Social Media

Stewardship Ontario engages residents on Twitter by providing useful recycling tips and reminders. In 2017, Stewardship Ontario's twitter posts generated 70,000 impressions.

Section 2

2017 MHSW Program Performance

MHSW Performance Report for 2017

Background and Stakeholder Consultation

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

In 2017, Stewardship Ontario, in partnership with Automotive Material Stewardship (AMS), participated in information sessions for stewards on the Industry Stewardship Plan (ISP) for automotive materials. Information sessions were designed to educate stakeholders on the benefits offered by the AMS program, the differences between the AMS and MHSW programs and the exiting process to leave Stewardship Ontario to join the AMS ISP. Stewardship Ontario worked collaboratively with AMS in order to ensure a smooth transition for those stewards wishing to join the AMS ISP. As well, Stewardship Ontario worked with service providers to ensure they were fully aware of AMS and able to participate as service providers should they choose to do so.

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 443 stewards as of December 31, 2017.

The total number of MHSW steward reports received in 2017 was 1,573 (versus 1,704 in 2016).

The total fees invoiced to the reporting MHSW stewards in 2017 were \$21,287, 674. In 2016, \$32,955,358 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.

Stewardship Ontario continues to perform steward report verification and audit to ensure the accuracy of steward reports.

Vendor Registration

Stewardship Ontario

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 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.

In 2017, Stewardship Ontario had 24 approved transporters and 14 approved processors for MHSW materials. This number has declined over the past three years due to the transfer of supply chains to ISP operators for paint, pesticides, solvents, fertilizers, antifreeze, oil containers and oil filters.

Accessibility

The following chart details consumer accessibility by collector type for MHSW in 2017:

Channel - Activity	2017 Actual
Municipal – Depot	88
Municipal – Events	305
Automotive – Commercial Sites ¹	12,000
Automotive – Do It Yourself (DIY) Sites ¹	985
Return-to-Retail (R2R)	30
Battery Incentive Program (BIP)	5,340
Provincial Parks Program	102

1 – The collection sites for used antifreeze, oil containers and oil filters was transitioned to Automotive Materials Stewardship on April 1, 2017.

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 for this material on

On October 28, 2015, WDO approved an ISP for pesticides, solvents and fertilizers to be managed by PCA. PCA assumed the supply chain management for these materials on April 1, 2016. As of Q2 2017 all pesticide stewards had transitioned to PCA.

On April 14, 2015, the WDO Board approved Soda Stream's Industry Stewardship Plan (ISP) with an effective date of June 30, 2016. Under this ISP, Soda Stream will continue to manage its proprietary carbon dioxide (CO2) cylinders.

On August 10, 2016 the WDO Board approved Automotive Materials Stewardship (AMS) ISP to manage automotive materials (antifreeze/antifreeze containers, oil filters, and oil containers). AMS assumed the supply chain for these materials on April 1, 2017.

Program Performance Against Targets

2017 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	1,984	50%	992	1,210	61%	219	3,267	(2,057)
Fertilizers	3	N/A	N/A	5	N/A	N/A	5	(0)
Oil Containers	1,390	52%	723	1,569	113%	846	3,921	(2,352)
Oil Filters	4,799	85%	4,079	4,622	96%	543	8,983	(4,361)
Paints & Coatings	10	77%	8	8	77%	0	0	8
Pesticides	0	57%	0	0	0%	0	7	(7)
Pressurized Containers (Non-Refillable)	881	46%	405	336	38%	(69)	312	24
Pressurized Containers (Refillable)	480	98%	470	447	93%	(24)	409	38
Single-Use Batteries	6,301	40%	2,520	3,136	50%	615	3,226	(90)
Solvents	286	46%	132	80	28%	(52)	100	(20)

Available for collection, targets and collected tonnes do not include the performance of industry stewardship plans.

2017 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	1,984	50%	992	1,210	61%	219	3,267	(2,057)
Fertilizers	3	N/A	-	-	N/A	0	N/A	N/A
Oil Containers	1,390	52%	723	1,569	113%	846	3,921	(2,352)
Oil Filters	4,799	85%	4,079	4,622	96%	543	8,983	(4,361)
Paints & Coatings	10	62%	6	6	62%	0	N/A	(3,315)
Pesticides	0	N/A	-	-	N/A	0	N/A	N/A
Pressurized Containers (Non-Refillable)	881	46%	405	336	38%	(69)	312	24
Pressurized Containers (Refillable)	480	98%	470	447	93%	(24)	409	38
Single-Use Batteries	6,301	28%	1,790	2,697	43%	907	2,775	(78)
Solvents	286	6%	17	17	6%	0	9	8

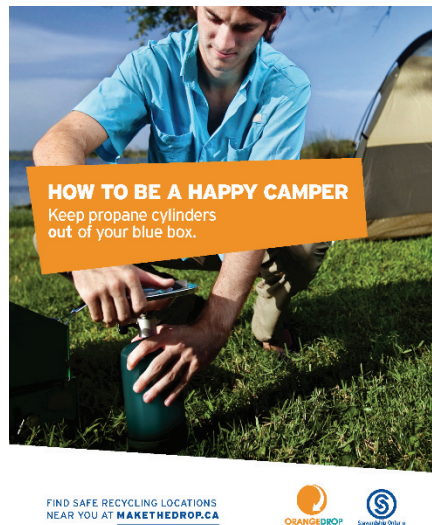
Available for collection, targets and diverted tonnes do not include the performance of industry stewardship plans.

Promotion and Education

The promotion and education 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 and incentive partners) to achieve collection and diversion targets.

Propane Advertising Campaign

Stewardship Ontario ran a campaign to remind consumers that propane cylinders don't belong in their blue box and should be brought to a depot for safe handling. The below ads were included in the campaign which ran throughout July and August in select *On Route* locations along major cottage/camping highways. The campaign generated just under one million impressions. Templates of Stewardship Ontario's ads are made available on the Stewardship Ontario website for municipalities to download.



Social Media

Stewardship Ontario continues 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 the propane campaign, shared recycling tips and tricks, reminded residents of our locator tool on our website and encouraged proper recycling of Orange Drop materials. Orange Drop's posts generated over 110,000 impressions throughout 2017.

Section 3

2017 Audited Financial Statements

Stewardship Ontario

Financial Statements

For the year ended December 31, 2017

Stewardship Ontario

Financial Statements

For the year ended December 31, 2017

Contents

Independent Auditor's Report	2
Financial Statements	
Balance Sheet	3
Statement of Changes in Net Assets	4
Statement of Operations	5
Statement of Cash Flows	6
Notes to Financial Statements	7-16



Tel: 416 865 0200
Fax: 416 865 0887
www.bdo.ca

BDO Canada LLP
TD Bank Tower
66 Wellington Street West,
Suite 3600, P.O. Box 131
Toronto, ON M5K 1H1 Canada

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, 2017, 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, 2017, 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 28, 2018
Toronto, Ontario

Stewardship Ontario Balance Sheet

December 31	2017	2016
--------------------	-------------	-------------

Assets

Current

Cash	\$ 29,039,415	\$ 34,087,469
Investments (Note 2)	20,325,867	20,278,089
Accounts and other receivables (Note 3)	13,177,789	15,449,300
Prepaid expenses and deposits	31,354	35,768

	62,574,425	69,850,626
--	------------	------------

Capital assets (Note 5)

Investments (Note 2)	-	39,689
----------------------	---	--------

	40,357,723	39,891,939
--	------------	------------

	\$102,932,148	\$109,782,254
--	---------------	---------------

Liabilities and Net Assets

Current

Accounts payable and accrued liabilities (Note 4)	\$ 36,431,535	\$ 37,607,160
Deferred revenue (Note 7)	9,805,560	9,805,560
Continuous Improvement Fund (Note 8)	23,305,487	27,284,448

	69,542,582	74,697,168
--	------------	------------

Net Assets

Invested in capital assets	-	39,689
Unrestricted	23,859,036	25,134,289
Internally restricted (Note 9)	9,530,530	9,911,108

	33,389,566	35,085,086
--	------------	------------

	\$102,932,148	\$109,782,254
--	---------------	---------------

On behalf of the Board:



Director



Director

Stewardship Ontario Statement of Changes in Net Assets

For the year ended December 31, 2017

	Invested in Capital Assets	Unrestricted	Internally Restricted	2017 Total
Balance, beginning of year	\$ 39,689	\$ 25,134,289	\$ 9,911,108	\$ 35,085,086
Deficiency of revenue over expenses for the year	(39,689)	(1,275,253)	(380,578)	(1,695,520)
Balance, end of year	\$ -	\$ 23,859,036	\$ 9,530,530	\$ 33,389,566

For the year ended December 31, 2016

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

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

Stewardship Ontario Statement of Operations

For the year ended December 31	2017	2016
Revenue		
Blue Box program steward fees	\$121,870,641	\$122,872,314
MHSW program steward fees	21,287,674	32,955,358
Investment income (Note 10)	692,820	1,000,053
	<u>143,851,135</u>	<u>156,827,725</u>
Expenses		
Blue Box Program		
Municipal Transfer Payments	116,715,713	110,833,044
Continuous Improvement Fund (Note 12(b))	12,951	4,203,473
Research and development	49,939	132,383
Promotion and education	363,341	134,995
	<u>117,141,944</u>	<u>115,303,895</u>
MHSW Program		
Direct material costs	17,831,997	27,596,535
Promotion and education	27,787	487,969
	<u>17,859,784</u>	<u>28,084,504</u>
Common costs		
Program management (Note 4)	8,783,950	8,398,738
Resource Productivity and Recovery Authority (Note 11)	1,760,977	2,363,161
	<u>10,544,927</u>	<u>10,761,899</u>
Total expenses	<u>145,546,655</u>	<u>154,150,298</u>
Excess (deficiency) of revenue over expenses for the year	<u>\$ (1,695,520)</u>	<u>\$ 2,677,427</u>

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

Stewardship Ontario Statement of Cash Flows

For the year ended December 31

2017

2016

Cash provided by (used in)

Operating activities

Excess (deficiency) of revenue over expenses for the year	\$ (1,695,520)	\$ 2,677,427
Adjustments to reconcile excess (deficiency) of revenue over expenses for the year to cash provided by operating activities		
Amortization of capital assets	39,689	47,231
Non-cash component of investment income	765,467	470,543
Changes in non-cash working capital balances:		
Accounts and other receivables	2,271,511	(637,488)
Prepaid expenses and deposits	4,413	(20,324)
Accounts payable and accrued liabilities	(1,175,625)	5,563,641
Continuous Improvement Fund	(3,978,961)	(727,262)
	(3,769,026)	7,373,768

Investing activities

Purchase of investments net of expenses	(1,279,028)	(1,375,154)
Repayments from loan receivable	-	990,000
	(1,279,028)	(385,154)

Increase (decrease) in cash during the year

(5,048,054) 6,988,614

Cash, beginning of year

34,087,469 27,098,855

Cash, end of year

\$ 29,039,415 \$ 34,087,469

Stewardship Ontario

Notes to Financial Statements

December 31, 2017

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 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, Waste Diversion Ontario ("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.

Stewardship Ontario Notes to Financial Statements

December 31, 2017

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.

Stewardship Ontario

Notes to Financial Statements

December 31, 2017

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.

2. Investments

	2017	2016
Cash held with broker	\$ 197,495	\$ 775,070
Fixed income	60,486,095	59,394,958
Common shares, private company	500,000	500,000
Impairment on common shares of private company	(500,000)	(500,000)
	60,683,590	60,170,028
Less: Current portion	20,325,867	20,278,089
	\$ 40,357,723	\$ 39,891,939

Fixed income investments bear interest at 1.70% to 4.65% (2016 - 1.70% to 5.68%) and mature between January 2018 and January 2026 (2016 - July 2017 and January 2026). The decrease in market value of investments for the year ended December 31, 2017 amounted to \$156,365 (2016 - decrease of \$61,388) which is included in investment income (Note 10).

Stewardship Ontario

Notes to Financial Statements

December 31, 2017

3. Accounts and Other Receivables

	2017	2016
Blue Box and MHSW program steward fees	\$ 13,316,772	\$ 15,492,142
Other	70,778	33,891
Allowance for doubtful accounts	(209,761)	(76,733)
	\$ 13,177,789	\$ 15,449,300

4. Significant Contracts

(a) Canadian Stewardship Services Alliance Inc. ("CSSA")

The Organization entered into an agreement with 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 (2016 - \$6,191,552) for these services and are included in program management expenses. Included in accounts payable and accrued liabilities is \$587,353 (2016 - \$508,959) 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 20% (2016 - 18%) of the Organization's board membership.

(b) Automotive Materials Stewardship Inc. ("AMS")

On February 2, 2017, the Organization entered into a Supply Chain Agreement with AMS, a newly established organization whose program was previously under the Organization's MHSW program. AMS focuses on the waste management of anti-freeze, oil filters, and oil containers. Under the Supply Chain Agreement, the Organization shall purchase from AMS, the Organization's Automotive Market Share of tonnes of each Automotive Materials (oil filters, oil containers, and anti-freeze) under the supply chain. During the year, the Organization incurred costs of \$3,278,974 under this agreement which are included in direct material costs for the MHSW program.

The Organization and AMS do not share any common board members.

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

Stewardship Ontario Notes to Financial Statements

December 31, 2017

5. Capital Assets

	2017		2016	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	\$ 106,688	\$ 106,688	\$ 106,688	\$ 105,925
Furniture and fixtures	459,785	459,785	459,785	420,859
	566,473	566,473	566,473	526,784
		\$ -		\$ 39,689

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. As at December 31, 2017, the Organization has yet to receive the 2017 scheduled payment. 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.

Stewardship Ontario Notes to Financial Statements

December 31, 2017

7. Deferred Revenue

	<u>2017</u>	<u>2016</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.

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 \$1,050,000 (2016 - \$3,309,805) and spent \$5,289,978 (2016 - \$4,037,067) on continuous improvement activities. The funds held by the Organization for the CIF are included in cash.

Stewardship Ontario Notes to Financial Statements

December 31, 2017

9. Internally Restricted Net Assets

	2017	2016
Sustaining Fund	\$ 3,500,000	\$ 3,500,000
Plastic Market Development Fund	4,964,379	4,964,379
Blue Box Fund	1,066,151	1,066,151
Battery Surplus Fund	-	380,578
	\$ 9,530,530	\$ 9,911,108

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, \$nil (2016 - \$63,616) 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, \$nil (2016 - \$219,258) 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. In the prior year \$456,620 was spent on battery promotional and educational activities. In the current year, RPRA approved the release of the internally restricted fund and \$380,578 was a reduction of their steward fee obligations.

10. Investment Income

	2017	2016
Interest income	\$ 1,236,889	\$ 1,537,386
Dividend income	221,397	127,237
Loss on sale of investments	(431,197)	(409,155)
	1,027,089	1,255,468
Adjustment to fair value	(156,365)	(61,388)
Investment expenses	(177,904)	(194,027)
	\$ 692,820	\$ 1,000,053

Stewardship Ontario Notes to Financial Statements

December 31, 2017

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.

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, 2017, the Organization has spent \$2,235,508 (2016 - \$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. Each year, RPRA determines the amount of the annual municipal obligation funded by the Organization's stewards that is passed along to the CIF and any cumulative unused amounts are reflected in Deferred Revenue (Note 7). As of December 31, 2017, approved project funding and related commitments for the CIF amounted to approximately \$21,482,541 of the total fund balance of \$23,305,487.

Stewardship Ontario Notes to Financial Statements

December 31, 2017

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, unless otherwise noted. 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 \$501,010 (2016 - \$376,733).

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.

(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)).

Stewardship Ontario Notes to Financial Statements

December 31, 2017

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

(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.

14. Subsequent Events

The Organization had previously been jointly named as a defendant for breach of the Copyright Act in the amount of \$1,650,000. The claim was settled in February 2018 and there was no amount owing by the Organization.



Thinking
beyond
the box

Stewardship Ontario

Report Close