



Thinking
beyond
the box

Stewardship Ontario

WDO Filing on 2015 Program Performance

March 29, 2016

Signature of the Chair of the Board of Directors

This report has been approved by the Stewardship Ontario Board of Directors for submission to Waste Diversion Ontario in accordance with the requirements of the *Waste Diversion Act*.

A handwritten signature in blue ink, appearing to read 'Debbie Baxter', with a stylized flourish at the end.

Debbie Baxter
Chair
Stewardship Ontario Board of Directors

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2015 Blue Box Program Performance

Blue Box Performance Report for 2015

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 Waste Diversion Ontario website at www.wdo.ca.

Stewardship Ontario presented the Blue Box Program performance and fee schedule for 2016 to stewards on October 29, 2015. 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 1,944 stewards as of December 31, 2015.

The total number of Blue Box steward reports received in 2015 was 1,364 (versus 1,525 in 2014).

The total fees invoiced to the reporting Blue Box stewards in 2015 were \$111,777,857 (versus \$106,264,573 in 2014). These are the fees reported in Stewardship Ontario's Statement of Operations. The increase in 2015 is the result of a full year impact of an arbitrator's determination of the steward obligation after Municipal Industry Program Committee discussions ended in a stalemate. Note that steward reports for any prior year's obligations are captured in the year that the reporting takes place.

2015 marked the fourth year of Stewardship Ontario's current compliance review framework (designed in cooperation with Deloitte LLP, and building upon best practices from European EPR jurisdictions. The framework 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 completion expected in 2016.

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 65.8% to 64.9%. Stewardship Ontario attributes the decrease in tonnes recycled to the reduction of generated/supplied tonnes. The drop in generated/supplied tonnes is likely due to stewards either switching to lighter or less materials and/or to a decline in consumer purchasing.

While recycled tonnes showed slight decline of 1.7% versus 2013, the recycled kilograms per capita declined slightly more at 3.1%. This is the result of both population growth and the reduction of generated/supplied tonnes. All else being equal, light weighting will result in a downward trend of recycled kilograms per capita over time.

Province	Ontario 2014	Ontario 2013	YoY Variance %
Recycling Performance			
Recycled Tonnes	884,504	900,135	-1.7%
Generated Tonnes	1,361,930	1,368,160	-0.5%
Recycling Rate	64.9%	65.8%	-1.3%
Provincial Recycling Target	60.0%	60.0%	-
Population Serviced by PPP Program	13,358,776	13,178,310	1.4%
Recycled kg per Capita	66.2	68.3	-3.1%
Accessibility Performance			
# Households Serviced	5,365,378	5,222,058	2.7%
% Households with Access to PPP Program	97%	97%	-
P&E Cost per Capita	\$0.52	\$0.59	-11.4%
Consumer awareness	97%	97%	-

Program Cost

The overall net cost of the Blue Box recycling system increased by 2.5% or \$6.2M from 2013 to 2014; however, the net cost per capita remained flat. The primary reasons for this slight increase in costs are:

- a) Municipal costs increased driven by higher collection and processing operating costs as well as depot/transfer station material handling cost increases. New rates provided to municipalities by their contractors and a rise in staffing costs are the underlying reasons increasing these costs.
- b) At the same time, the three-year material revenue average decreased by \$11.8 million reflecting the elimination of the 2011 year – the recent performance height of the commodity markets.

Province	Ontario 2014	Ontario 2013	YoY Variance %
Cost Performance			
Recycled Tonnes	884,504	900,135	-1.7%
Net Cost*	\$252,936,907	\$246,718,476	2.5%
Net Cost per Tonne	\$286	\$274	4.3%
Net Cost per Capita	\$19	\$19	1.3%
Recycled kg per capita	66.2	68.3	-3.1%

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 eight 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). This material took centre stage in 2015 as it relates to materials requiring additional effort on sustainable markets. 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.

Capturing More Materials from Around the Home

With much headway gained in the area of collecting, processing and marketing mixed rigid plastics over the past several years, in part as a result of the promotion and education (P&E) campaigns run to encourage increased recycling of plastics, the emphasis in 2015 was put on increasing the capture of paper packaging and packaging used in the bathroom, where the link to recycling is often not connected by the consumer.

In 2015, 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. 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, a total of 16 MRF Material Composition and Density Studies were done at eight Ontario MRFs over two seasons. Understanding that knowledge is a key factor in the effective use of the Blue Box Program. 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 2015 to assist in the reduction of single-use propane cylinders being put in the Blue Box for recycling, and further informing residents of their proper disposal. This along with all other creative collateral were made available to all 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. In 2015, efforts continued with a mill material trial in Green Bay, Wisconsin. The trial involved running various pre-measured batches of CPP materials, each with varying levels of the individual packaging types (i.e. cartons, hot/cold beverage cups, aseptic containers) through the system in an effort to determine the impact of modifying the PSI-52 grade on overall fibre quality at the mill. Phase 2b of the project continued in parallel throughout the year. This phase involved determining the most efficient way to capture all of these materials within the MRF, whether it is by manual or mechanical sortation. Stewardship Ontario enlisted the assistance of the technical division of TiTech Optical Sorters to analyze samples of all CPP materials, and create a program that will improve the capture in MRFs utilizing optical sortation. The project was ongoing through 2015, with MRF testing completed in late 2015.

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. By the end of 2015, testing of pre and post-consumer plastic laminate samples was undertaken with plastics end-processors with results received in late 2015.

Section 2

2015 MHSW Program Performance

MHSW Performance Report for 2015

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 2015, Stewardship Ontario participated in partnership with Product Care Association in an information session regarding the paint 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 638 stewards as of December 31, 2015.

Total number of MHSW steward reports received in 2015 was 1,937 (versus 2,199 in 2014).

The total fees invoiced to the reporting MHSW stewards in 2015 were \$40,739,927. In 2014, \$42,739,927 was invoiced to reporting MHSW stewards. These are the fees as stated in Stewardship Ontario’s Statement of Operations; note that steward reports for any prior year’s obligations are captured in the year that the reporting takes place.

In 2015, eight reviews specific to oil filters and oil containers were initiated through the Used Oil Association, with one of these reviews completed in 2015. The audit framework for selecting stewards for audits gives higher priority to improving overall confidence in the quality of reporting, rather than simply achieving a defined tonnage target. In late 2015, four reviews of 2015 report data were initiated with results expected in 2016.

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 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:

	Year	Transporters	Processors
Vendor Registrations	2014	47	38
	2015	44	39
New Vendor Reviews Completed	2015	1	1
New Lab Pack Studies	2015	Fertilizers, Pesticides, and Miscellaneous Organics	

Transporters: SO had changes made to four transporters largely due to paint supply being transitioned to Product Care Association (PCA).

Processors: Introduced new battery processor "Battery Solutions" at the end of 2015.

Accessibility

The following chart details consumer accessibility by collector type for MHSW in 2014:

Channel - Activity	2015 Actual
Municipal – Depot	88
Municipal – Events	328
Automotive – Commercial Sites	12,000+
Automotive – Do It Yourself (DIY) Sites	883
Return-to-Retail (R2R)	30
Battery Incentive Program (BIP)	4,763
Provincial Parks Program	102

In 2015 there were over 500 new collection sites added. As of June 30th, Stewardship Ontario no longer manages the collection of paints and coatings. All paint collection activities were assumed by Product Care Association as part of its ISP, as such the remaining collection sites under R2R are those that collect batteries.

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. The effective date for this ISP is April 1, 2016.

The relationship with PCA will continue through 2016 to ensure that an effective ISP transition occurs and no issues arise.

Program Performance Against Targets

2015 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	14,037	50%	7,019	3,280	23%	-3,739	3,432	-152
Fertilizers	40	n/a	n/a	27	68%	n/a	34	-7
Oil Containers	3,469	52%	1,804	3,730	108%	1,926	3,964	-234
Oil Filters	9,013	85%	7,661	9,150	102%	1,489	9,065	85
Paints & Coatings (incl. Aerosols)	9,360	77%	7,207	4,604	49%	-2,603	9,422	-4,818
Pesticides	66	57%	38	39	59%	1	32	7
Pressurized Containers (Non-Refillable)	604	45%	272	339	56%	67	354	-15
Pressurized Containers (Refillable)	417	98%	409	458	110%	49	610	-152
Single-Use Batteries	7,010	40%	2,804	2,330	33%	-474	1,754	576
Solvents	1,649	46%	758	427	26%	-331	291	136

Notes: The target tonnes for Paints and Coatings is based on a full year. Product Care Association's ISP for the management of Paints and Coatings took effect on June 30, 2015.

Oil Containers performed at 108% of target due to an unquantifiable level of contamination. Field studies are being conducted during Q1 2016 to better quantify this figure. It is anticipated that contamination levels will be approximately 10% - 15% by weight.

Oil Filters performed at 102% of target. The calculation of available for collection includes assumptions about the weight of a new oil filter versus the weight of a used oil filter. Variances between the actual weights and assumed weights are possibly the cause of performance above the theoretical maximum.

Pressurized Containers – Refillable performed at 110% of target due to some cylinders being returned with residual gas (heavier), and some cylinders leaking from lifecycle management systems.

2015 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	14,037	50%	7,019	3,280	23%	-3,739	3,432	-152
Fertilizers	40	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oil Containers	3,469	52%	1,804	3,730	108%	1,926	3,964	-234
Oil Filters	9,013	85%	7,661	9,150	102%	1,489	9,065	85
Paints & Coatings (incl. Aerosols)	9,360	54%	5,055	3,315	35%	-1,740	7,452	-4,137
Pesticides	66	n/a	-	-	n/a	n/a	n/a	n/a
Pressurized Containers (Non-Refillable)	604	45%	272	339	56%	67	354	-15
Pressurized Containers (Refillable)	417	98%	409	458	110%	49	610	-152
Single-Use Batteries	7,010	31%	2,159	2,004	29%	-155	1,508	496
Solvents	1,649	5%	82	93	6%	11	63	30

Notes: *The target tonnes for Paints and Coatings is based on a full year. Product Care Association's ISP for the management of Paints and Coatings took effect on June 30, 2015.*

Oil Containers performed at 108% of target due to an unquantifiable level of contamination. Field studies are being conducted during Q1 2016 to better quantify this figure. It is anticipated that contamination levels will be approximately 10% - 15% by weight.

Oil Filters performed at 102% of target. The calculation of available for collection includes assumptions about the weight of a new oil filter versus the weight of a used oil filter. Variances between the actual weights and assumed weights are possibly the cause of performance above the theoretical maximum.

Pressurized Containers – Refillable performed at 110% of target due to some cylinders being returned with residual gas (heavier), and some cylinders leaking from lifecycle management systems.

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 support of the promotion and education mandate in 2015 fell into three key areas:

Activity Type	Number
Battery Advertising Campaign	See Notes Below
Channel Advertising Support	102
Total	102
Social Media: Facebook “Likes”	1,245 (1,274 in 2013)
Social Media: Twitter “Followers”	1,669 (1,578 in 2013)

Battery Recycling Advertising Campaign

The primary investment in P&E for 2015 was material-specific for batteries, a material that is still trying to reach target. The 2015 advertising campaign built upon the campaign run for the last three years, and ran in the spring and fall time, and included advertising in the following mediums:

- **Radio** – across six radio stations from May 6 – June 7 and October 12 – November 16. A total of 1,214 spots appeared during spring and fall advertising, resulting in four million impressions.
- **Out of home** – 38 billboards appeared in key areas to encourage increased battery recycling. Areas included St. Catherine’s, Kitchener, London, North Bay, Ottawa, Bellville and Kingston. Total impressions equalled 17 million.
- **Transit advertising** – Advertising appeared on TTC subways and the Go Train. In total, 1,200 posters appeared on the GO Train network and the TTC subway network over the spring and fall campaign periods, resulting in 25.8 million impressions.
- **Online** – advertising on the Weather Network, resulting in 1.6 million impressions.

The total impressions for the whole campaign equaled 41 million.

Channel Advertising Support

The Orange Drop Program also provided advertising support to Ontario Parks (the Ontario Parks Guide with circulation of 635,000 in English and 50,000 in French, and over 900 posters (English and French) supplied for display in the parks themselves) to communicate Orange Drop pressurized container collection cages in 85 Ontario parks and 17 Kids of America (KOA) parks.

Social Media

Social media work has developed increased following and facilitated on-going interactions with consumers. Facebook and Twitter activity – driving messaging around the battery campaign, sharing environmental stories and encouraging recycling – has assisted with reaching multiple demographics of waste generators. Facebook currently has 1,245 likes and Twitter has 1,669 followers.

Section 3

2015 Audited Financial Statements

Stewardship Ontario

Financial Statements

For the year ended December 31, 2015

Stewardship Ontario

Financial Statements

For the year ended December 31, 2015

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Independent Auditor's Report

To the Members of Stewardship Ontario

We have audited the accompanying financial statements of Stewardship Ontario, which comprise the balance sheet as at December 31, 2015 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, these financial statements present fairly, in all material respects, the financial position of Stewardship Ontario as at December 31, 2015, 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 24, 2016
Toronto, Ontario

**Stewardship Ontario
Balance Sheet**

December 31 2015 2014

Assets

Current

Cash	\$ 27,098,855	\$ 4,210,303
Investments (Note 2)	20,086,796	33,158,157
Accounts and other receivables (Note 3)	14,811,812	33,894,076
Loan receivable (Note 4)	330,000	330,000
Prepaid expenses and deposits	15,444	21,060

62,342,907 71,613,596

Capital assets (Note 5)	86,920	162,039
Investments (Note 2)	39,178,621	38,775,903
Loan receivable (Note 4)	660,000	990,000
Convertible loans receivable (Note 6)	-	1,500,000

\$ 102,268,448 \$ 113,041,538

Liabilities and Net Assets

Current

Accounts payable and accrued liabilities (Note 4)	\$ 32,043,519	\$ 40,764,028
Deferred revenue (Note 7)	9,805,560	9,805,560
CIF and E&E funds (Note 8)	28,011,710	30,182,336

69,860,789 80,751,924

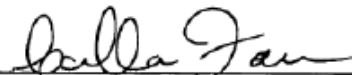
Net Assets

Invested in capital assets	86,920	162,039
Unrestricted	21,670,137	20,372,953
Internally restricted (Note 9)	10,650,602	11,754,622


32,407,659 32,289,614

\$ 102,268,448 \$ 113,041,538

On behalf of the Board:



Director



Director

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

Stewardship Ontario
Statement of Changes in Net Assets

For the year ended December 31, 2015

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

For the year ended December 31, 2014

	Invested in Capital Assets	Unrestricted	Internally Restricted	2014 Total
Balance, beginning of year	\$ 263,505	\$ 23,149,311	\$ 18,734,943	\$ 42,147,759
Deficiency of revenue over expenses for the year	(101,466)	(2,776,358)	(6,980,321)	(9,858,145)
Balance, end of year	\$ 162,039	\$ 20,372,953	\$ 11,754,622	\$ 32,289,614

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

Stewardship Ontario Statement of Operations

For the year ended December 31	2015	2014
Revenue		
Blue Box program steward fees	\$111,777,857	\$106,264,574
MHSW program steward fees	40,739,927	43,785,799
Investment income (Note 10)	1,236,184	795,627
	<u>153,753,968</u>	<u>150,846,000</u>
Expenses		
Blue Box Program		
Municipal Transfer Payments	105,641,403	104,449,367
Continuous Improvement Fund (Note 13(c))	1,951,562	3,307,279
Research and development	264,341	914,471
Promotion and education	3,729	5,500
	<u>107,861,035</u>	<u>108,676,617</u>
MHSW Program		
Direct material costs	32,448,085	35,678,441
Promotion and education	590,591	1,197,078
	<u>33,038,676</u>	<u>36,875,519</u>
Common costs		
Program management (Notes 4 and 11)	11,374,752	13,498,961
Waste Diversion Ontario and Ministry of Environment charges (Note 12)	1,361,460	1,653,048
	<u>12,736,212</u>	<u>15,152,009</u>
Total expenses	<u>153,635,923</u>	<u>160,704,145</u>
Excess (deficiency) of revenue over expenses for the year	\$ 118,045	\$ (9,858,145)

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

Stewardship Ontario Statement of Cash Flows

For the year ended December 31	2015	2014
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	\$ 118,045	\$ (9,858,145)
Adjustments to reconcile excess (deficiency) of revenue over expenses for the year to cash provided by operating activities		
Amortization of capital assets	75,119	101,466
Non-cash component of investment income	359,809	134,824
Allowance for investment in common shares	-	500,000
Changes in non-cash working capital balances:		
Accounts and other receivables	19,082,264	(7,818,032)
Prepaid expenses and deposits	5,616	283,327
Long term receivables	-	1,551,704
Accounts payable and accrued liabilities	(8,720,509)	6,129,260
CIF and E&E funds	(2,170,626)	(2,663,133)
	<u>8,749,718</u>	<u>(11,638,729)</u>
Investing activities		
Purchase of investments	-	(21,500,000)
Proceeds from investments	12,308,834	30,053,470
Repayments from loan receivable	330,000	330,000
Repayments from convertible loans receivable	1,500,000	-
	<u>14,138,834</u>	<u>8,883,470</u>
Increase (decrease) in cash during the year	22,888,552	(2,755,259)
Cash, beginning of year	<u>4,210,303</u>	<u>6,965,562</u>
Cash, end of year	\$ 27,098,855	\$ 4,210,303

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

Stewardship Ontario Notes to Financial Statements

December 31, 2015

1. Significant Accounting Policies

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

(a) Business Organization and Operations

Stewardship Ontario ("Organization") is an Industry Funding Organization created under Section 24 of the Waste Diversion Act, 2002 ("WDA") to operate waste diversion programs on behalf of Waste Diversion Ontario ("WDO"). On February 14, 2003, the Organization was formally incorporated in the Province of Ontario as a corporation without share capital. The Organization is a not-for-profit organization and as such is not subject to income taxes.

Blue Box Program

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

MHSW Program

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, 2015

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, 2015

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

	2015	2014
Cash held with broker	\$ 1,169,102	\$ 638,634
Fixed income	58,096,315	71,295,426
Common shares, private company	500,000	500,000
Impairment on common shares of private company	(500,000)	(500,000)
	59,265,417	71,934,060
Less: Current portion	20,086,796	33,158,157
	\$ 39,178,621	\$ 38,775,903

Fixed income investments bear interest at 1.70% to 5.68% (2014 - 1.25% to 5.68%) and mature between June 2016 and August 2020 (2014 - February 2015 and April 2020). The decrease in market value of investments for the year ended December 31, 2015 amounted to \$702,853 (2014 - \$624,969) which is included in investment income (Note 10).

The company is privately owned with no common share prices quoted in an active market. In 2014, the Organization recognized an impairment loss on the common shares of the private company of \$500,000 as there is uncertainty relating to the recoverability which was included in investment income (Note 10).

Stewardship Ontario Notes to Financial Statements

December 31, 2015

3. Accounts and Other Receivables

	2015	2014
Blue Box and MHSW program steward fees	\$ 14,821,974	\$ 31,553,225
MHSW deficit recovery fees	-	2,273,323
Other	28,623	153,974
Allowance for doubtful accounts	(38,785)	(86,446)
	\$ 14,811,812	\$ 33,894,076

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 \$8,224,645 (2014 - \$8,554,941) for these services. Included in accounts payable and accrued liabilities is \$846,302 (2014 - \$1,336,052) 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 17% (2014 - 25%) of the Organization's board membership.

The loan receivable is a loan to CSSA that bears interest at the bank prime rate and is repayable in five annual principal payments of \$330,000. The Organization received interest of \$34,926 (2014 - \$47,588).

	2015	2014
Loan receivable	\$ 990,000	\$ 1,320,000
Less: Current portion	330,000	330,000
	\$ 660,000	\$ 990,000

**Stewardship Ontario
Notes to Financial Statements**

December 31, 2015

5. Capital Assets

	2015		2014	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	\$ 106,688	\$ 102,675	\$ 106,688	\$ 95,222
Furniture and fixtures	459,785	376,878	459,785	309,212
	566,473	479,553	566,473	404,434
Net carrying amount		\$ 86,920		\$ 162,039

6. Convertible Loans Receivable

	2015	2014
Convertible loan, private company	\$ -	\$ 1,500,000
Convertible loan, private company	1,500,000	1,500,000
Allowance for convertible loans	(1,500,000)	(1,500,000)
	\$ -	\$ 1,500,000

During 2012, the Organization provided a \$1,500,000 convertible five year loan that bears interest at Bank of Canada prime rate plus 2% which is accrued and compounded monthly and is payable at the maturity date. The loan was convertible into common shares of the company at a discounted rate under certain circumstances or at the option of the Organization at the maturity date. The loan was to a private company with no common share prices quoted in an active market. The loan was repaid in full in 2015.

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.

During 2013, the Organization recognized an allowance for doubtful loans of \$1,500,000 relating to the convertible loan as there is uncertainty relating to the collectability of the balance owing. In 2015, the Organization reassessed the collectability of the convertible loan and determined the \$1,500,000 allowance is still required.

**Stewardship Ontario
Notes to Financial Statements**

December 31, 2015

7. Deferred Revenue

	2015	2014
Blue Box Program		
Glass Market Development Fund	\$ 666,017	\$ 666,017
MHSW Program		
Deferred Revenue	9,139,543	9,139,543
	\$ 9,805,560	\$ 9,805,560

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 13(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. CIF and E&E Funds

	2015	2014
Continuous Improvement Fund ("CIF")	\$ 28,011,710	\$ 29,216,829
Effectiveness & Efficiency Fund ("E&E Fund")	-	965,507
	\$ 28,011,710	\$ 30,182,336

Each year, the Organization is directed to hold back a portion of the municipal blue box obligation for the CIF; see Note 13(c) 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 Continuous Improvement Fund ("CIF") received net contributions of \$2,991,059 (2014 - \$3,621,306) and spent \$4,196,178 (2014 - \$6,284,486) on continuous improvement activities. The funds held by the Organization for the CIF are included in investments.

Details regarding the E&E Fund are explained in Note 13(b).

Stewardship Ontario Notes to Financial Statements

December 31, 2015

9. Internally Restricted Net Assets

	2015	2014
Sustaining Fund	\$ 3,500,000	\$ 3,500,000
Plastic Market Development Fund	5,027,995	5,162,962
Blue Box Fund	1,285,409	1,649,520
Fibre Market Development Fund	-	109,155
Battery Surplus Fund	837,198	1,332,985
	\$ 10,650,602	\$ 11,754,622

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 a 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, \$134,967 (2014 - \$892,586) 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, \$364,111 (2014 - \$Nil) was spent on these types of Blue Box activities.

The directors authorized the establishment of the Fibre Market Development Fund to develop markets to support additional recycling and efficiency of fibres recycled in the Blue Box Program and internally restricted funds for this purpose. During the year, \$109,155 (2014 - \$386,285) was spent on fibre market development activities.

The directors authorized the establishment of the Battery Surplus Fund to reflect over contributions in this category totaling \$2,362,730 and on December 31, 2014 internally restricted \$1,839,646. The Battery Surplus Fund is used to promote the safe disposition of batteries. During the year, \$495,787 (2014 - \$506,661) was spent on battery promotional and educational activities.

Stewardship Ontario
Notes to Financial Statements

December 31, 2015

10. Investment Income

	2015	2014
Interest income	\$ 2,502,289	\$ 2,451,258
Loss on sale of investments	(371,110)	(391,888)
Impairment on common shares in private company (Note 2)	-	(500,000)
	2,131,179	1,559,370
Adjustment to fair value	(702,853)	(624,969)
Investment expenses	(192,142)	(138,774)
	\$ 1,236,184	\$ 795,627

11. Arbitration Costs

Included in Program Management are legal and other costs relating to legal disputes that were subject to arbitration of \$Nil (2014 - \$2,791,507). These costs are unusual in nature and non-recurring.

12. Waste Diversion Ontario

The WDO caused the Organization to be created under the WDA to act as an IFO for waste diversion programs (Note 1). Under the Blue Box and MHSW program agreements, the Organization is required to collect fees to cover both program operations and the program specific and common costs of WDO that relate to program oversight.

Stewardship Ontario Notes to Financial Statements

December 31, 2015

13. 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, 2015, the Organization has spent \$2,235,508 and the remaining balance is restricted for glass market development projects.

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

The intent of the E&E Fund was to provide support to Ontario municipalities to help reduce the cost of their Blue Box recycling programs and increase the tonnes recovered. This initiative was part of the Blue Box Program Plan that was created as a result of Ontario's Waste Diversion Act, 2002, and an integral part of the plan to help Ontario achieve the Minister's recycling target of 60% diversion of Blue Box waste by 2008 and to maximize efficiency of individual Blue Box municipal recycling programs and of the system as a whole. As of January 1, 2008, the fund was collapsed and there still remains funds that are unspent. The E&E Fund contributions were fully committed by the end of 2008, and through 2009, approved E&E Fund projects continued to be implemented. In 2009, the Municipal Industry Program Committee ("MIPC") agreed that unspent E&E Fund Contributions would be transferred to the Continuous Improvement Fund ("CIF") as projects were completed. During the year, the remaining balance of \$965,507 was transferred to the CIF.

(c) Continuous Improvement Fund ("CIF")

The CIF provides grants and loans to municipalities to execute projects that will increase the efficiency of municipal Blue Box recycling and help boost system effectiveness. The CIF 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, 2015, approved project funding and related commitments for the CIF amounted to approximately \$21,399,655 of the total fund balance of \$28,011,710.

(d) Realty Lease Agreements

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

2016	\$ 360,000
2017	<u>160,700</u>
	<u>\$ 520,700</u>

Stewardship Ontario Notes to Financial Statements

December 31, 2015

14. 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, long term receivables, loan receivable and convertible loans receivable. Management considers its exposure to credit risk over cash to be remote as the Organization holds cash deposits at a major Canadian bank. Management considers its exposure to credit risk over investments to be remote as the Organization invests in federal or provincial government securities, corporate bonds, securities backed by any chartered bank, guaranteed investment certificates or equity and bond pooled funds. Accounts and other receivables, loans receivable and long term receivables are not significantly concentrated, monitored regularly for collections, and the carrying amount represents the maximum credit risk exposure. The Organization's provision for uncollectable convertible receivables, accounts receivables and loans receivable is approximately \$1,538,785 (2014 - \$1,586,446).

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.

Stewardship Ontario Notes to Financial Statements

December 31, 2015

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

15. 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.

16. Comparative Figures

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



Thinking
beyond
the box

Stewardship Ontario

Report Close