Thinking beyond the box

Stewardship Ontario

WDO Filing on 2014 Program Performance

March 24, 2015

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*.

Debbie Baxter
Chair
Stewardship Ontario Board of Directors

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Section 1

2014 Blue Box Program Performance

Blue Box Performance Report for 2014

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.

In 2014 Stewardship Ontario proposed two changes to the fee setting methodology in an effort to address an anomaly that appeared in 2012 and which effectively defeated the fairness intention of the three factor formula for magazines and catalogue stewards. Specifically, the high recycling rate of 94.7% for magazines and catalogues should have provided the relief to this material in accordance with the equalization component of the three factor formula which transfers costs away from the high performing material. Instead magazines and catalogues actually attracted cost. The two proposed changes were:

1. Remove the cost transfer barrier from between the printed paper and packaging categories to allow for the application of the three factor formula across all materials.
2. Redistribute all costs for “unstewarded” materials across all materials rather than attributing them to the material sub-category that they most resemble.

In March 2014 the steward community was asked to consider these two proposed changes, and to answer the following two questions:

1. Do you agree that the recommendation to integrate the three factor formula to allow transfer of cost amongst printed paper and packaging results in a fairer fee setting methodology? In not, why not?
2. Do you agree that the recommendation to redistribute all costs for unstewarded material costs across all materials results in a fairer fee setting methodology? If not, why not?

190 organizations participated in the consultation. 35 organizations provided written feedback. The feedback received on the proposed changes was divided – with those in the printed paper category standing to benefit from the changes clearly supportive, while those in the packaging category who would bear a higher financial cost largely opposed. Given the lack of consensus, and in light of CSSA’s decision to review the fee methodology in 2015, Stewardship Ontario decided to continue to apply the interim solution of partially disaggregating the printed paper fee rates for the 2015 fees, which was supported by the magazine steward sector.

In addition to this important consultation with printed paper stewards, Stewardship Ontario's Managing Director presented the Blue Box Program performance and two fee scenarios for 2015 to stewards on October 15, 2014. Two fee scenarios were presented at the expected lower and upper limits since the 2015 obligation has not yet been determined.

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 3,079 stewards as of December 31, 2014.

The total number of Blue Box steward reports received in 2014 was 1,525 (versus 1,449 in 2013).

The total fees invoiced to the reporting Blue Box stewards in 2014 were $106,264,573 (versus $99,789,519 in 2013). These are the fees reported in Stewardship Ontario's Statement of Operations. The increase is the result 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.

2014 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). Thirteen steward compliance reviews were undertaken during the year. 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. Fourteen compliance reviews were undertaken in 2013.

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 year-over-year increase in the general recycling rate from 62.8% to 65.8%. Stewardship Ontario attributes the increase largely to a 3.8% decline in the total amount of tonnes generated. In other words, since the recycling rate is calculated by dividing generated tonnes by recovered tonnes, a drop in the generated tonnes (i.e., smaller denominator) has resulted in a higher proportion of those tonnes being recycled. 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 moderate growth versus 2012, the recycled kilograms per capita declined marginally. 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 2013	Ontario 2012	YoY Variance %
Recycling Performance			
Recycled Tonnes	900,135	892,924	0.8%
Generated/ Supplied Tonnes	1,368,160	1,421,593	-3.8%
Recycling Rate	*65.8%*	*62.8%*	4.8%
Provincial Recycling Target	*60.0%*	*60.0%*	
Population Serviced by PPP Program	13,178,310	13,009,640	1.3%
Recycled kg per Capita	68.3	68.6	-0.4%
Accessibility Performance			
# Households Serviced	5,222,058	5,194,568	0.5%
% Households with Access to PPP Program	97%	97%	0.0%
P&E Cost per Capita	$0.59	$0.58	1.7%
Consumer awareness	97%	*97%*	0.0%

- ***Please note that the population and per capita values for 2012 and 2013 have been updated to reflect the most recent Census data.***

Program Cost

The overall net cost of the Blue Box recycling system increased by 1.5% or $3.6M from 2012 to 2013; however, the net cost per capita remained flat. The primary reasons for this slight increase are:

a) Municipal costs increased driven by higher processing rates and more quantities of higher cost materials being processed.

b) At the same time material revenues received by municipalities decreased by 1.4% or $1.25M. The municipalities attribute this decrease to unfavourable commodity markets but it may also be due to varying commodity revenue sharing arrangementsmunicipalities negotiate with their processors. There is no consistency across municipalities for the quality standards of their baled materials and the revenue they receive for specific materials and this is an area over which, under the current legislative framework, Stewardship Ontario has no influence.

Province	Ontario 2013	Ontario 2012	YoY Variance %
Cost Performance			
Recycled Tonnes	900,135	892,924	0.8%
Net Cost*	$246,718,476	$243,149,785	1.5%
Net Cost per Tonne	$274.10	$272.30	0.7%
Net Cost per Capita	$18.70	$18.70	0.0%
Recycled kg per capita	68.3	68.6	-0.4%

- ***Net cost includes supply chain costs, commodity revenues, P&E, regulatory, market development and program management costs.***

The Waste Diversion Act requires that Stewardship Ontario pay municipalities 50% of the total net costs incurred by municipalities as a result of the program. The precise meaning of this language became the subject of a lengthy arbitration process to determine the 2014 steward obligation and payments to municipalities. Retired Justice Robert Armstrong rendered a 122-page decision in the arbitration over the amount of money owed by stewards to municipalities for Blue Box recycling in 2014. The arbitrator validated all of Stewardship Ontario's key legal arguments surrounding the legitimacy of stewards' efforts to limit their payments to reasonable costs, but in the absence of a negotiated agreement between Stewardship Ontario and AMO/City of Toronto, the arbitrator set the steward obligation to municipalities at an amount higher than Stewardship Ontario had requested—at $115M v. $95.7M.

The most significant component of the Arbitrator's decision is that in accordance with section 25(5) of the Waste Diversion Act, Stewards are legally intended to pay only "reasonable" costs for Blue Box recycling. In arguing this point, Armstrong had the following to say:

"It cannot, in my view, as a matter of common sense, have been in the contemplation of the Legislature that the Stewards be obliged to fund 50 per cent of the actual net costs without a limitation of reasonableness."

He also stated unequivocally that:

"In conclusion I find that under section 25(5) of the Act, the obligation that Stewardship Ontario pay 50 per cent of the total net costs incurred by the municipalities as a result of the program *is limited by the requirement that costs be reasonable.*" (emphasis added)

While upholding cost containment for stewards, the Arbitrator was not sufficiently persuaded that the method used to determine reasonable costs (known as the "best practice cost model" or "baseline cost model") was appropriate in this instance and allowed the municipalities a higher award stating: "I want to make it clear that by rejecting the use of the model for the determination of the 2014 Steward Obligation, I do not reject the principles of cost containment and the objective of attempting to pursue best practices as a means of containing costs….Specifically, I have only rejected the utilization of best practice cost bands, to the extent they are incorporated into the best practices cost model, which I have found wanting due to the insufficiency of the evidence supporting its use."

Stewardship Ontario appreciates that the Arbitrator upheld the legitimacy of cost containment and the concept of reasonable costs for assessing stewards' obligations. We are committed to moving forward collaboratively with AMO and the City of Toronto to determine stewards' future obligations in accordance with the Blue Box Program.

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 seven years, Stewardship Ontario has put considerable funds and effort into researching, investing and nurturing markets for materials such as mixed broken glass, mixed rigid plastics, film plastic, and more recently composite paper packaging and laminated packaging. 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. This material took centre stage in 2014 as it relates to materials requiring additional effort on sustainable markets. Stewardship Ontario in cooperation with The Continuous Improvement Fund has had several meetings with both municipalities and end-processors in this space to discuss ways to manage the current market situation and work together towards future progress.

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 2014 was put on increasing the capture of paper packaging and packaging used in areas of the home where the link to recycling is often not connected by the consumer.

Curbside Composition Studies performed in 2012/13 provided insight into what printed paper and packaging materials Ontario residents are actively recycling, and what ones they are simply discarding. Many factors can influence blue box program participation, but convenience and knowledge are critical. In an effort to capture materials that originated in areas of the home such as the bathroom, Stewardship Ontario embarked on a project with five Central Ontario municipalities. This project included a wide-spread promotion and education campaign, along with pre and post campaign curbside composition studies. The 'Paper Is In' Campaign ran in-market through August-September. Collateral from this campaign (newspaper and radio ads, bus signage and billboard signage) was made available to all municipalities wishing to use it for their own campaigns.

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 2014, 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 MRF's utilizing optical sortation.

Single-use Coffee Capsules

In 2014, Stewardship Ontario was approached by Mother Parkers Coffee and Tea, and Tim Horton's to assist them in determining the viability of capturing and recycling the EcoCup single-use coffee capsule in the blue box system. This project involved the two-prong approach of first determining if the capsules can be captured within a MRF, and second, are the capsules useful feedstock at end processors. Stewardship Ontario, in coordination with Canadian Stewardship Services Alliance, performed studies in four MRFs in British Columbia and Ontario.

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 members of PAC – Packaging Consortium on finding end-markets for this material type that exclude energy from waste or pyrolysis.

Section 2

2014 MHSW Program Performance

MHSW Performance Report for 2013

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.

Stewardship Ontario did not conduct any MHSW related consultation with the steward community in 2014. However, we communicated with them on some significant issues including:

- **SSA Methodology Change**: In April 2014 we announced that we would revert back to the original method of calculating stewards' SSA (Steward Share Assessment) each quarter because the 2013 "fix" of applying annual true-up percentage to each quarterly invoice did not successfully provide the stability and predictability to their quarterly invoices. Stewards asked that we revert back to the original method of calculating the SSA (by dividing the quantity of the material supplied by each steward by the quantity supplied by all stewards of the material in that quarter) because the degree of quarter over quarter volatility caused by steward billing adjustments, stewards entering and exiting material categories in mid-year was unacceptable to them.

- **Oil Filter Surplus**: We notified oil filter stewards that the draw down on their surplus to pay for management of oil filters would be coming to an end in October 2014, and that starting in Q1 2015, there would be no surplus amount remaining which means that oil filter stewards would need to start making full payments on their invoices.

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 860 stewards as of December 31, 2014.

Total number of MHSW steward reports received in 2014 was 2,199 (versus 2,296 in 2013).

The total fees invoiced to the reporting MHSW stewards in 2014 were $42,790,273. In 2013, $38,935,265 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 2014, the auditors completed 20 of the 24 reviews of steward data collection, reporting systems and methodologies initiated in 2013. A further 20 audits specific to oil filters and oil containers were initiated in 2014 through the Used Oil Association. The audit framework for selecting stewards for audits gives higher priority to improving overall confidence in the quality of reporting, rather than simply achieving a defined tonnage target.

Vendor Registration

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	2013	45	36
	2014	47	37
New Vendor Reviews Completed	2014	2	2
New Lab Pack Studies	2014	Fertilizers, Pesticides, and Miscellaneous Organics	

Accessibility

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

Channel - Activity	2014 Actual
Municipal – Depot	89
Municipal – Events	331
Automotive – Commercial Sites	12,000+
Automotive – Do It Yourself (DIY) Sites	781
Return-to-Retail	192
Battery Incentive Program (BIP)	4,354
Provincial Parks Program	102
Total Sites	**17,849**

A total of 732 new collection sites were added in 2014, the majority of which are BIP collection sites. Expansion activities were focused on channels that collect materials that are performing below target.

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 will assume the management of one of the nine Municipal Hazardous or Special Waste (MHSW) materials currently managed by Stewardship Ontario. The effective date of the Product Care ISP was determined by the WDO Board to be no earlier than June 2015.

Program Performance Against Targets

2014 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	12,471	45%	5,612	3,432	28%	-2,180	3,448	-16
Fertilizers	115	n/a	n/a	34	30%	n/a	25	9
Oil Containers	3,401	47%	1,598	3,964	117%	2,366	3,753	211
Oil Filters	9,318	80%	7,454	9,065	97%	1,611	8,726	339
Paints & Coatings (incl. Aerosols)	9,140	67%	6,124	9,422	103%	3,298	9,377	45
Pesticides	100	56%	56	32	32%	-24	36	-4
Pressurized Containers (Non-Refillable)	661	35%	231	354	54%	123	360	-6
Pressurized Containers (Refillable)	59	97%	57	610	1034%	553	653	-43
Single-Use Batteries	7,395	35%	2,588	1,754	24%	-834	1,271	483
Solvents	1,967	46%	905	291	15%	-614	631	-240

Note: The Single-use Batteries target of 35% is for Consumer Type Portable Batteries in the C-MHSW Program Plan. The calculated target for Single-use Batteries only, based on data in the Program Plan, is 30%. Stewardship Ontario achieved a 79% share of this calculated target.

2014 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	12,471	45%	5,612	3,432	28%	-2,180	3,448	-16
Fertilizers	115	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Oil Containers	3,401	47%	1,598	3,964	117%	2,366	3,753	211
Oil Filters	9,318	80%	7,454	9,065	97%	1,611	8,726	339
Paints & Coatings (incl. Aerosols)	9,140	47%	4,296	7,452	82%	3,156	7,574	-122
Pesticides	100	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Pressurized Containers (Non-Refillable)	661	35%	231	354	53%	123	360	-6
Pressurized Containers (Refillable)	59	97%	57	610	1030%	553	653	-43
Single-Use Batteries	7,395	27%	1,967	1,508	20%	-459	1,093	415
Solvents	1,967	5%	98	63	3%	-35	142	-79

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 retailer, 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 2014 fell into three key areas:

Activity Type	Number
Attendance at Community Events	37 events (25 in 2013)
Battery Advertising Campaign	See Notes Below
Channel Advertising Support	121
Total	**158+**
Social Media: Facebook “Likes”	1,274 (1,259 in 2013)
Social Media: Twitter “Followers”	1,578 (1,149 in 2013)

Community Outreach Program

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

In 2014, the outreach team attended a mix of local, trade and community events, interacting with residents and informing them about the Orange Drop Program. Events attended included the Ontario Science Centre’s March break activities, the Green Living show, the Royal Winter Fair, Sparks Street Canada Day celebrations in Ottawa, TD Sunfest in Toronto, Collingwood Elvis Festival, Barrie Kempfest, Redpath Waterfront Festival, and the Stouffville Strawberry Festival among others. The team made a concerted effort to visit areas and events outside of the GTA.

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

- 37 events with 63 activation days (the amount of days Orange Drop brand ambassadors were interacting with Ontario residents)
- Interacted with 52,682 people
- Provided 62,807 giveaways (postcards, informational flyers, magnets, bags)

Brand ambassadors carried out ad hoc surveys to measure brand awareness and use of Orange Drop drop-off locations. Responses showed an increase in program awareness of 114% compared to the previous year. In terms of how many consumers had used an Orange Drop location, a 1,323% increase over last year was noted.

Battery Recycling Advertising Campaign

Another primary investment in P&E for 2014 was material-specific for batteries, a material that has not yet met target. The 2014 advertising campaign built upon the campaign run last year, and ran from September to November, and included advertising in the following mediums:

- **Radio** – across seven radio stations from September 8 – November 17 (Indie 88, FLOW, Virgin 99.9 , Z103 – GTA, Live Ottawa, KICX FM Sudbury, and 106.7 Country Waterloo)
- **Out of home** – 75 billboards in total from September 8 – November 17. Billboards appeared in areas with low battery collections at drop-off locations and included: Kingston, Ottawa, Windsor, Sudbury, Timmins, Sault Ste. Marie, and Thunder Bay
- **Transit advertising** – TTC subways and Go Train (one poster in every car on TTC subway from September 8 – November 17, and one poster in every other car on Go Trains for the same period). In total, 300 posters on the GO Train network, and 350 posters on the TTC subway network
- **Online** – advertising on the Weather Network for three weeks, September 8-26, online, mobile and tablet forecast city pages.

The total impressions for the whole campaign equaled 53 million.

Channel Advertising Support

Orange Drop was also able to reach a large number of Ontario residents through municipal waste calendars and websites. In 2014, 31 municipalities were supported with exposure to nearly 1.8 million households. 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 1,274 likes and Twitter has 1,578 followers.

Section 3

2014 Audited Financial Statements

Stewardship Ontario

Financial Statements
For the year ended December 31, 2014

Stewardship Ontario

Financial Statements
For the year ended December 31, 2014

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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, 2014 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, 2014, 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, 2015
Toronto, Ontario

Stewardship Ontario
Balance Sheet

December 31	2014	2013
Assets		
Current		
Cash	**$ 4,210,303**	$ 6,965,562
Investments (Note 2)	**33,158,157**	37,733,193
Accounts and other receivables (Note 3)	**32,658,652**	26,076,044
Loan receivable (Note 4)	**330,000**	330,000
Prepaid expenses and deposits	**21,060**	304,387
	70,378,172	71,409,186
Capital assets (Note 5)	**162,039**	263,505
Investments (Note 2)	**38,775,903**	43,389,161
Long term receivables (Note 3)	**-**	1,551,704
Loan receivable (Note 4)	**990,000**	1,320,000
Convertible loans receivable (Note 6)	**1,500,000**	1,500,000
	$ 111,806,114	$ 119,433,556

Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities (Note 4)	**$ 39,528,604**	$ 34,634,768
Deferred revenue (Note 7)	**9,805,560**	9,805,560
CIF and E&E funds (Note 8)	**30,182,336**	32,845,469
	79,516,500	77,285,797
Net Assets		
Invested in capital assets	**162,039**	263,505
Unrestricted	**20,372,953**	23,149,311
Internally restricted (Note 9)	**11,754,622**	18,734,943
	32,289,614	42,147,759
	$ 111,806,114	$ 119,433,556

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, 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**

For the year ended December 31, 2013

		Invested in Capital Assets	Unrestricted	Internally Restricted	2013 Total
Balance, beginning of year	$	2,025,971	$ 30,531,282	$ 13,424,591	$ 45,981,844
Deficiency of revenue over expenses for the year		(116,275)	(1,993,727)	(1,724,083)	(3,834,085)
Investment in capital assets		3,809	(3,809)	-	-
Proceeds on disposal of capital assets		(1,650,000)	1,650,000	-	-
Transfer to Oil Filter Fund (Note 9)		-	(5,194,789)	5,194,789	-
Transfer to Battery Fund (Note 9)		-	(1,839,646)	1,839,646	-
Balance, end of year	$	263,505	$ 23,149,311	$ 18,734,943	$ 42,147,759

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

Stewardship Ontario
Statement of Operations

For the year ended December 31	2014	2013
Revenue		
Blue Box program steward fees	**$ 106,264,574**	$ 99,789,519
MHSW program steward fees	**43,785,799**	38,935,265
Investment income (Note 10)	**795,627**	1,089,062
Gain on sale of intangible asset	**-**	218,903
	150,846,000	140,032,749
Expenses		
Blue Box Program		
Municipal Transfer Payments	**104,449,367**	91,192,259
Continuous Improvement Fund (Note 13(c))	**3,307,279**	1,168,014
Research and development	**914,471**	359,203
Promotion and education	**5,500**	208,526
	108,676,617	92,928,002
MHSW Program		
Direct material costs	**35,678,441**	37,171,290
Promotion and education	**1,197,078**	1,045,826
	36,875,519	38,217,116
Common costs		
Program management (Notes 4 and 11)	**13,498,961**	9,234,816
Waste Diversion Ontario and Ministry of Environment charges (Note 12)	**1,653,048**	1,454,827
Bad debt expense on convertible loans receivable (Note 6)	**-**	1,500,000
Enterprise Information System	**-**	532,073
	15,152,009	12,721,716
Total expenses	**160,704,145**	143,866,834
Deficiency of revenue over expenses for the year	**$ (9,858,145)**	$ (3,834,085)

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

Stewardship Ontario
Statement of Cash Flows

For the year ended December 31	2014	2013
Cash provided by (used in)		
Operating activities		
Deficiency of revenue over expenses for the year	**$ (9,858,145)**	$ (3,834,085)
Adjustments to reconcile deficiency of revenue over expenses for the year to cash provided by operating activities		
Amortization of capital assets	**101,466**	335,177
Non-cash component of investment income	**134,824**	786,591
Gain on sale of intangible asset	**-**	(218,903)
Allowance for convertible loans receivable	**-**	1,500,000
Allowance for investment in common shares	**500,000**	-
Changes in non-cash working capital balances:		
Accounts and other receivables	**(6,582,608)**	23,787,966
Prepaid expenses and deposits	**283,327**	122,843
Long term receivables	**1,551,704**	5,090,880
Accounts payable and accrued liabilities	**4,893,836**	(19,648,918)
CIF and E&E funds	**(2,663,133)**	(4,025,141)
	(11,638,729)	3,896,410
Investing activities		
Purchase of investments	**(21,500,000)**	(23,742,125)
Proceeds from investments	**30,053,470**	19,279,314
Purchase of capital assets	**-**	(3,809)
Repayments from loan receivable	**330,000**	-
	8,883,470	(4,466,620)
Decrease in cash during the year	**(2,755,259)**	(570,210)
Cash, beginning of year	**6,965,562**	7,535,772
Cash, end of year	**$ 4,210,303**	$ 6,965,562
Non-cash transactions		
Sale of intangible asset (Note 4)	**$ -**	$ 1,650,000

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

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 (see Note 3(a)). 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.

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

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

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

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

(e) Capital Assets

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

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

(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.

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

2. Investments

	2014	2013
Cash held with broker	**$ 638,634**	$ 711,598
Money market pooled funds	**5,578,874**	5,786,921
Guaranteed investment certificates	**13,804,158**	23,773,669
Bonds	**48,375,866**	50,350,166
Equity and bond pooled funds	**3,536,528**	-
Common shares, private company	**500,000**	500,000
Impairment on common shares of private company	**(500,000)**	-
	71,934,060	81,122,354
Less: Current portion	**33,158,157**	37,733,193
	$ 38,775,903	$ 43,389,161

Money market pooled funds, guaranteed investment certificates and bonds bear interest at 1.25% to 5.68% (2013 - 1.25% to 4.90%) and mature between February 2015 and April 2020 (2013 - March 2014 and April 2022). The decrease in market value of investments for the year ended December 31, 2014 amounted to $624,969 (2013 - $921,971) which is included in investment income (Note 10).

The Organization owns 544,818 common shares of a company representing a 8.45% ownership at December 31, 2014. The company is privately owned with no common share prices quoted in an active market. During the year, 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 is included in investment income (Note 10).

3. Accounts and Other Receivables

	2014	2013
Blue Box and MHSW program steward fees	**$ 30,317,801**	$ 21,121,369
MHSW deficit recovery fees (a)	**2,273,323**	6,822,082
Other	**153,974**	211,797
Allowance for doubtful accounts	**(86,446)**	(527,500)
	32,658,652	27,627,748
Less: Current portion	**32,658,652**	26,076,044
	$ -	$ 1,551,704

(a) MHSW deficit recovery fees

The MHSW deficit recovery fees are receivable from stewards in quarterly installments over a three year period which commenced on May 15, 2012.

4. Significant Contracts and Loan Receivable

During 2013, 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. Further, in 2013, the Organization entered into an arrangement with CSSA to use the intellectual property until the Management Services Agreement with CSSA began January 1, 2014. During the year, the Organization incurred costs of $Nil (2013 - $310,376) relating to this arrangement.

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 $8,554,941 (2013 - $Nil) for these services. Included in accounts payable and accrued liabilities is $1,336,052 (2013 - $Nil) 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 25% (2013 - 21%) 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.

	2014	2013
Loan receivable	**$ 1,320,000**	$ 1,650,000
Less: Current portion	**330,000**	330,000
	$ 990,000	$ 1,320,000

5. Capital Assets

	2014		2013	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Property, plant and equipment				
Computer equipment	**$ 106,688**	**$ 95,222**	$ 134,071	$ 110,266
Furniture and fixtures	**459,785**	**309,212**	459,785	220,085
	566,473	**404,434**	593,856	330,351
Net carrying amount		**$ 162,039**		$ 263,505

6. Convertible Loans Receivable

	2014	2013
Convertible loan, private company	**$ 1,500,000**	$ 1,500,000
Convertible loan, private company	**1,500,000**	1,500,000
Allowance for convertible loans	**(1,500,000)**	(1,500,000)
	$ 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 is convertible into common shares of the company at a discounted rate under certain conditions or at the option of the Organization at the maturity date. The loan is to a private company with no common share prices quoted in an active market.

During 2012, the Organization provided a $1,500,000 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 loans as there is uncertainty relating to the collectability of the balances owing. In 2014, the Organization reassessed the collectability of the convertible loan and determined the $1,500,000 allowance is still required.

7. Deferred Revenue

	2014	2013
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

	2014	2013
Continuous Improvement Fund ("CIF")	$ 29,216,829	$ 31,879,962
Effectiveness & Efficiency Fund ("E&E Fund")	965,507	965,507
	$ 30,182,336	$ 32,845,469

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 $3,621,306 (2013 - $1,494,478) and spent $6,284,486 (2013 - $5,520,161) 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).

9. Internally Restricted Net Assets

	2014	2013
Sustaining Fund	**$ 3,500,000**	$ 3,500,000
Plastic Market Development Fund	**5,162,962**	6,055,548
Blue Box Fund	**1,649,520**	1,649,520
Fibre Market Development Fund	**109,155**	495,440
Oil Filter Surplus Fund	**-**	5,194,789
Battery Surplus Fund	**1,332,985**	1,839,646
	$ 11,754,622	$ 18,734,943

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

The directors authorized the establishment of a fund for investment in infrastructure for plastic markets and activities for their development and therefore internally restricted funds for this purpose. During the year, $892,586 (2013 - $219,043) was spent on plastics market development activities and $Nil (2013 - $1,500,000) was recognized as a bad debt expense (Note 6).

The directors authorized the establishment of the Blue Box Fund to support future efficiency in the Blue Box supply chain and therefore internally restricted $1,650,000 in 2012 for this purpose. During the year, $Nil (2013 – $480) was spent on Blue Box supply chain activities.

The directors authorized the establishment of the Fibre Market Development Fund to develop markets to support additional recycling and efficiency of fibres recycled in the Blue Box Program and internally restricted $500,000 in 2012 for this purpose. During the year, $386,285 (2013 – $4,560) was spent on fibre market development activities.

The directors authorized the establishment of the Oil Filter Surplus Fund to reflect over contributions in this category totaling $9,445,251 and on December 31, 2014 internally restricted $5,194,789. The Oil Surplus Fund is used to provide a fee holiday to offset costs that support the safe disposition of oil filters. During the year, $5,194,789 (2013 - $Nil) was utilized for the fee holiday from the Oil Filter Surplus Fund and $Nil (2013 - $4,250,462) from unrestricted net assets.

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, $506,661 (2013 - $Nil) was spent on battery supply chain activities from the Battery Surplus Fund and $Nil (2013 - $523,084) was spent from unrestricted net assets.

10. Investment Income

	2014	2013
Interest income	**$ 2,451,258**	$ 2,370,380
Loss on sale of investments	**(391,888)**	(196,382)
Impairment on common shares in private company	**(500,000)**	-
	1,559,370	2,173,998
Adjustment to fair value	**(624,969)**	(921,971)
Investment expenses	**(138,774)**	(162,965)
	$ 795,627	$ 1,089,062

11. Arbitration Costs

Included in Program Management are legal and other costs relating to legal disputes that were subject to arbitration of $2,791,507 (2013 - $Nil). 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.

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, 2014, 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. At December 31, 2014, the E&E Fund balance is $965,507. During the year, no funds were 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 started in 2008 with a three year mandate to direct 20% of the Organization's municipal funding obligation to support projects that will identify and implement best practices, examine and test emerging technologies, employ innovative solutions to increase Blue Box materials marketed, and promote gains in cost-effectiveness that can be implemented province wide. Currently, 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, 2014, approved project funding and related commitments for the CIF amounted to approximately $21,100,863 of the total fund balance of $29,216,829.

(d) Realty Lease Agreements

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

2015	$ 359,400
2016	360,000
2017	160,700
	$ 880,100

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, unless otherwise noted. A brief description of management's assessments of these risks is as follows:

(a) General Objectives, Policies and Processes:

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

(b) Credit Risk:

Financial instruments potentially exposed to credit risk include cash, investments, accounts and other receivables, long term receivables, loan receivable and convertible loans receivable. Management considers its exposure to credit risk over cash to be remote as the Organization holds cash deposits at a major Canadian bank. Management considers its exposure to credit risk over investments to be remote as the Organization invests in federal or provincial government securities, corporate bonds, securities backed by any chartered bank, 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 $1,586,446 (2013 - $2,027,500).

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

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

(c) Interest Rate Risk:

The Organization is exposed to interest rate risk from fluctuations in interest rates depending on prevailing rates at renewal of fixed income investments. To manage this exposure, the Organization invests mainly in fixed income securities (federal or provincial government securities, guaranteed investment certificates, 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. Although the overall philosophy of the investment fund is to hold securities until maturity, trading of the portfolio is allowed should the potential for a significant capital gain arise through the movement of interest rates. This investment approach ensures that the portfolio achieves stable and reliable rates of return with minimal interest rate reinvestment risk, and minimal transaction costs.

(d) Liquidity Risk:

Liquidity risk is the risk that the Organization will not be able to meet its obligations as they come due. The two programs operated by the Organization carry substantially different risks in the ability to forecast and control expenditures. Management has taken steps to ensure that the Blue Box and MHSW programs will have sufficient working capital available to meet obligations which it is unable to cover from program revenues in the short term. 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)).

(e) 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. Comparative Figures

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

Thinking beyond the box

Stewardship Ontario

Report Close