

Stewardship Ontario

Financial Statements

For the year ended December 31, 2004

Draft - For discussion only

Stewardship Ontario

Financial Statements

For the year ended December 31, 2004

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Auditors' Report

To the Members of Stewardship Ontario

We have audited the balance sheet of Stewardship Ontario as at December 31, 2004 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Due to the self-registration of participants in the stewardship program as described in Note 2(a) to the financial statements, the completeness of revenues is not susceptible to satisfactory audit verification. Accordingly our verification of these revenues was limited to the amounts recorded in the records of the Organization and we were not able to determine whether any adjustments might be necessary to revenues, excess of revenue over expenses, assets and net assets.

In our opinion, except for the effect of adjustments, if any which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenues referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Ontario
February 14, 2005

**Stewardship Ontario
Balance Sheet**

December 31 **2004** 2003

Assets

Current

Cash	\$ 1,446,862	\$ -
Investments (Note 3)	9,358,510	-
Accounts receivable	3,236,799	182,446
Prepaid expenses and deposits	13,978	-

14,056,149 **182,446**

Deferred start-up costs (Note 4)	1,767,625	2,606,374
Due from Waste Diversion Ontario (Note 5)	500,000	-

\$ 16,323,774 **\$ 2,788,820**

Liabilities and Deficiency

Current

Accounts payable and accrued liabilities	\$ 10,656,744	\$ -
Due to CSR: Corporations Supporting Recycling (Note 6)	951,571	2,788,820
Deferred revenue (Note 7)	5,322,659	-

16,930,974 **2,788,820**

Due to CSR: Corporations Supporting Recycling (Note 6)	951,572	-
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17,882,546 **2,788,820**

Deficiency

Deficiency of revenue over expenses for the year	(1,558,772)	-
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\$ 16,323,774 **\$ 2,788,820**

On behalf of the Board:

_____ Director

_____ Director

Stewardship Ontario Statement of Operations

For the year ended December 31

2004

	(Note 1) Actual	Budget	Variance
Revenue			
Steward fees	\$ 40,923,863	\$ 44,245,000	(3,321,137)
Interest income	118,120	-	118,120
	<u>41,041,983</u>	<u>44,245,000</u>	<u>(3,203,017)</u>
Less: deferred revenue			
LCBO Glass Market Development	(2,039,659)	(1,945,000)	(94,659)
Effectiveness and Efficiency	(3,283,000)	(3,283,000)	-
	<u>(5,322,659)</u>	<u>(5,228,000)</u>	<u>(94,659)</u>
	<u>35,719,324</u>	<u>39,017,000</u>	<u>(3,297,676)</u>
Expenses			
Municipal			
Municipal transfers	29,547,076	29,546,000	(1,076)
LCBO municipal transfers	4,000,000	4,000,000	-
	<u>33,547,076</u>	<u>33,546,000</u>	<u>(1,076)</u>
Program Delivery			
Amortization of deferred start-up costs	777,755	750,000	(27,755)
Bad debts	82,337	-	(82,337)
Committee, board and MOE support	168,863	226,000	57,137
Communications	280,439	204,500	(75,939)
Information technology and data management	123,057	186,000	62,943
Market development	106,773	565,000	458,227
MOE enforcement and compliance	462	302,000	301,538
Other	73,344	462,000	388,656
Recruitment and registration	90,474	186,000	95,526
Technical services	558,343	739,500	181,157
WDO costs	545,690	710,000	164,310
	<u>2,807,537</u>	<u>4,331,000</u>	<u>1,523,463</u>
Administrative			
Accounting	238,299	403,000	164,701
Automobile	27,892	32,500	4,608
Human resources	142,110	146,000	3,890
Insurance	36,305	10,500	(25,805)
Office and general	136,806	217,000	80,194
Professional fees	127,372	100,000	(27,372)
Promotion	12,905	20,000	7,095
Rent	194,366	191,000	(3,366)
Travel	7,428	20,000	12,572
	<u>923,483</u>	<u>1,140,000</u>	<u>216,517</u>
	<u>37,278,096</u>	<u>39,017,000</u>	<u>1,738,904</u>
Deficiency of revenue over expenses for the year	\$ (1,558,772)	\$ -	\$ (1,558,772)

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

Stewardship Ontario Statement of Cash Flows

For the year ended December 31

2004

Cash provided by (used in)

(Note 1)

Operating activities

Deficiency of revenue over expenses for the year	\$ (1,558,772)
Adjustments to reconcile deficiency of revenue over expenses for the year to cash provided by operating activities	
Amortization of deferred start-up costs (Note 4)	777,755
Changes in non-cash working capital balances	
Accounts receivable	(3,054,353)
Prepaid expenses and deposits	(13,978)
Accounts payable and accrued liabilities	10,656,744
Deferred revenue (Note 7)	5,322,659

12,130,055

Investing activities

Increase in investments	(9,358,510)
Decrease in deferred start-up costs (Note 4)	60,994
Advance to Waste Diversion Ontario	(500,000)
Repayments to CSR: Corporations Supporting Recycling (Note 6)	(885,677)

(10,683,193)

Increase in cash during the year and cash, end of year

\$ 1,446,862

Stewardship Ontario Notes to Financial Statements

December 31, 2004

1. Business Organization and Operations

The objective of the Organization is to provide financial support to municipally operated waste diversion programs in Ontario for wastes designated under the Waste Diversion Act 2002. The Organization is a not-for-profit organization and as such is not subject to income taxes.

In October 2002, Stewardship Ontario began the process of designing and developing the Blue Box Program as a result of a request of the Minister of the Environment.

On February 14, 2003 Stewardship Ontario was formally incorporated in the province of Ontario as a corporation without share capital and commenced operations on February 1, 2004, the commencement date of the Blue Box Program Plan.

2. Significant Accounting Policies

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

(a) Revenue Recognition

Steward fees are recognized as revenue when stewards register with the Organization and submit tonnage details.

The Organization follows the deferral method of accounting for revenue whereby amounts received for specific programs are recognized as revenue when the related expenses are incurred.

(b) Investments

Investments are carried at cost which approximates market value.

(c) Deferred Start-Up Costs

Deferred start-up costs are amortized on a straight line basis over three years from the start of operations.

(d) Financial Instruments

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 and that the carrying value approximates the fair value of its financial instruments.

All of the Organization's cash and investments are held at one major financial institution.

**Stewardship Ontario
Notes to Financial Statements**

December 31, 2004

3. Investments

	2004
CIBC Note, 2.25% due December 7, 2005	\$ 975,000
CIBC Note, 2.25% due December 7, 2005	975,000
CIBC Note, 2.25% due December 7, 2005	975,000
CIBC Note, 2.25% due December 7, 2005	975,000
CIBC Note, 2.05% due December 13, 2005	975,000
CIBC Note, 2.05% due December 13, 2005	975,000
CIBC Note, 2.25% due December 31, 2005	575,000
CIBC Note, 2.25% due December 31, 2005	975,000
CIBC Note, 2.25% due December 31, 2005	975,000
CIBC Note, 2.25% due December 31, 2005	975,000
Accrued interest	8,510
	\$ 9,358,510

4. Deferred Start-up Costs

The start-up costs consist of the following:

	2004	2003	Total
Committee and board support	\$ 12,820	\$ 243,570	\$ 256,390
Commodity revenue analysis	4,092	79,907	83,999
Communications	25,413	258,487	283,900
Human resources	11,173	173,154	184,327
IT and data management	(239,206)	283,821	44,615
Market development	2,038	88,925	90,963
Office expenses	21,437	361,081	382,518
Professional fees	13,387	95,506	108,893
Recruitment and registration	21,710	186,055	207,765
Rent	16,258	176,622	192,880
Technical leadership	49,884	654,879	704,763
Travel	-	4,367	4,367
	2,727,826	5,395,194	5,334,200
less: amortization	(777,755)	-	(777,755)
	\$ 1,950,071	\$ 5,395,194	\$ 4,556,445

Stewardship Ontario Notes to Financial Statements

December 31, 2004

5. Due from Waste Diversion Ontario

The amount due from Waste Diversion Ontario is due on demand and is non-interest bearing.

6. Due to CSR: Corporations Supporting Recycling

The Board of Directors approved the borrowing of funds to finance the initial start up costs.

Balance, beginning of year	\$ 2,788,820
Repayments during the year, net	<u>885,677</u>
Balance, end of year	<u>\$ 1,903,143</u>

These are to be repaid no later than December 31, 2006. It is anticipated that these funds will be repaid as follows:

2005	\$ 951,571
2006	<u>951,572</u>
	<u>\$ 1,903,143</u>

7. Deferred Revenue

Deferred revenue represents unspent resources, externally restricted for programs, received in the year related to a subsequent years' activity.

LCBO Glass Market Development	\$ 2,039,659
Effectiveness and Efficiency	<u>3,283,000</u>
	<u>\$ 5,322,659</u>