ontario clean water agency 2001 annual report

Ontario Clean Water Agency
Agence Ontarienne Des Eaux

contents

THE ONTARIO CLEAN WATER AGENCY ANNUAL REPORT FOR THE YEAR 2001

The Ontario Clean Water Agency ("OCWA") was established by the Province of Ontario to provide arms-length delivery of water and wastewater services and to give municipalities a choice in the financing and operation of water and wastewater systems.

In 2001, the Agency focused on establishing a strong foundation upon which to build new strategic policies for 2002 and beyond.

CONTENTS

what is the ontario clean water agency

In December 2001, OCWA operated over 395 water and wastewater facilities in more than 160 municipalities.

Created under the Capital Investment Plan Act 1993, OCWA is in the business of providing reliable, cost-effective and environmentally responsible water and wastewater services to municipalities and private industry. OCWA also offers expert consulting services to clients undertaking construction, expansion or upgrading of their water and wastewater infrastructure.

OCWA has mobilized its intellectual capital and resources to respond to developments in the industry and in cases of emergency, as it did during the Ice Storm in 1998 and the Walkerton E-Coli crisis in 2000. OCWA completed the final stage of the Walkerton remediation in 2001. Acting as the project manager, OCWA was assigned to lead the implementation of a new water treatment system for the Town.

Since May 2000, perceptions and expectations of the water industry in the province of Ontario have changed dramatically. The Ministry of the Environment launched "Operation Clean Water" in August 2000. The new Ontario Drinking Water Protection Regulation, its Ontario Drinking Water Standards and proposed amendments to the Waterworks and Sewage Works regulations have changed the operating environment requiring more stringent and frequent sampling, increased training and certification requirements, greater reporting obligations and improved public access to information.

OCWA responded to the challenges of 2001 by establishing key priorities that centered on the implementation of the regulations for client facilities and operating systems to ensure compliance.

to be the best in the business of producing clean water

Since 1996, OCWA's mission statement has been "To be the best in the business of producing clean water." In anticipation of 2001, OCWA went through an intensive and interactive business planning process where we reviewed and reassessed our goals and objectives. The business planning process also included a review of our mission statement. The mission statement was confirmed and expanded to include corporate goals, objectives and values.

OUR MISSION

To be the best in the business of producing clean water - as measured by our clients, our employees, our shareholder and the public we serve. To achieve this we shall be dedicated to:

- Service excellence by delivering the best value through comprehensive services at a competitive price.
- Operational excellence through continuous improvement, technological innovation and compliant operations that promote the protection of public health and the environment.
- Workforce excellence by attracting, retaining and developing the best employees in the industry, dedicated to living our shared values and attaining our goals.

OCWA'S VALUES ARE:

- Being respectful of colleagues and clients
- Acting with integrity and fairness
- Delivering quality service to meet clients' needs
- Collaborating through teamwork
- Fostering the courage of innovation
- Accepting responsibility and being accountable for our actions

a message from our president

2001 was a successful year for OCWA — our commitment to our corporate values was unwavering during a time when OCWA was faced with significant changes in its operational environment.

Since its inception, OCWA has embodied its mission of being the "best in the business of producing clean water." Paul Scott (currently on a leave of absence) and I are strongly committed to leading an organization that has proven time and again that it values the well being of our clients, the safeguarding of our environment, and the health and safety of our employees as its highest priorities.

OCWA developed a long-term strategic direction in 1999 that focused on information-on-demand reporting, automated operations and fostering operational expertise in our workforce. OCWA developed these initiatives to meet and exceed Ontario's Drinking Water Objectives. The introduction of the Provincial Government's "Operation Clean Water" initiative has compacted the timelines of our long-range plan. The new regulations have required that we increase our investment in initiatives like: Client Connection, OCWAware™, and Trainers for Excellence Network ("TEN") in the short term. The fact that these initiatives were already underway gave us a head start, strengthening our commitment to excellence.

In January 2001, Client Connection became OCWA's official platform for client reporting. Client Connection is a web-based reporting mechanism that provides our clients with timely process information about their facilities and access to financial information and quarterly status reports. Client Connection is just one example of OCWA's commitment to service excellence - utilizing proven techniques and the latest technologies to ensure the needs of our clients are met quickly, effectively and affordably.

OCWAware™ continues to assist the Agency in achieving operational excellence by providing a cost-effective methodology to operate facilities and to meet, or exceed, stringent compliance requirements. OCWAware™ technologies monitor key operational variables from remote locations, enhance process control, improve response time to potentially unsafe water situations, automate data collection to meet regulatory reporting requirements, and gather process and maintenance information to provide greater accountability to the regulator and clients.

The Trainers for Excellence Network (“TEN”), initiated in 2000, speaks to OCWA’s commitment to workforce excellence. TEN consists of experts from throughout the Agency who volunteer as peer trainers. The TEN program witnessed an expansion in 2001. OCWA doubled both the number of courses available as well as the participation rate. The program ensures that our staff have ongoing training in all aspects of water and wastewater treatment and regulatory compliance. Furthermore, the TEN program will assist operators who hold “grandparented” licenses to meet the requirements necessary to become recertified through examination.

OCWA is going through a transitional phase that started in 2000 and will continue into 2002. Our 2001 financial performance represents substantial investment in our future and our long-term commitment to service, operational and workforce excellence.

OCWA has a long history of providing clean, safe water to Ontario’s communities. We continue to deliver a high level of service at a competitive price. Our facilities consistently operate within the compliance standards of the Ontario government.

I am proud that our constant search for efficiencies and our highly advanced electronic communications network has enhanced OCWA’s reputation for operational expertise and environmental responsibility in the Province of Ontario.

Gail Beggs

Gail Beggs
President and Chief Executive Officer
(December, 2001)

Paul Scott
President and Chief Executive Officer
(January to November, 2001)

a foundation for the future

OCWA's goals have remained constant over the past three years. In 2001, the Agency focused on establishing a strong foundation upon which to build new strategic policies for 2002 and beyond.

The key priorities for 2001 were to complete projects started in previous years and to realign OCWA's organizational structure.

Paul Scott, President and CEO, initiated a program in 2001 to review and improve OCWA's organizational structure. The first phase of the reorganization, completed in 2001, clarified the roles, responsibilities, and accountabilities of OCWA's management under a new senior management structure.

The accountability for operational concerns was consolidated into one position, the Vice President of Operations. A single Vice President of Operations improves the consistency of operational procedures throughout the Agency and facilitates better communication between head office and operations.

The Vice President of Project Development and Technical Services position was created to consolidate OCWA's three technical and engineering resources into one division. The Project Development Group, the Operational Research and Development Group, and Compliance all report to the Vice President of Project Development and Technical Services. The integration of these departments provides a single point of contact for internal and external requests for technical expertise.

Business Development's role was redefined to focus solely on business development and client retention. The Vice President of Business Development is accountable for contract negotiations, marketing and developing new business opportunities.

The second phase of the restructuring process will result in the creation of five regions in Ontario. Regional Managers will be appointed to report to the Vice President of Operations. Our network of sales representatives will be reassigned to sales territories and business development contacts that are defined by these regions. The new structure will ensure that OCWA's resources are deployed more effectively and efficiently throughout the Province and improve the alignment of our organizational resources to our corporate priorities.

OBJECTIVES

OCWA's primary objectives for 2001 were to fully implement the requirements of the new regulations and to commit to: Service Excellence, Operational Excellence and Workforce Excellence.

SERVICE EXCELLENCE

Superior client service remains a prime focus and underscores everything OCWA does. Clients want quality water and wastewater services, value for money (efficiency and innovation), an experienced and expert workforce, and ease of access to operating and financial information. OCWA measures the quality of service it provides by examining the rate of client contract retention, the dollar value of new business and by soliciting feedback from our clients. In 2001 OCWA achieved an 87% contract retention rate and secured over $2.07 million in new business. The new Vice President of Business Development initiated a program in 2001 to conduct personal interviews with clients to ensure OCWA was providing the highest level of service.

service excellence performance measures

Measure:	Outcome:	Notes:
Reaffirm Business Development Strategy	achieved	• Approved by OCWA's Board of Directors
90% Contract Retention	87%	• 6% Contract Terminations • 7% Municipal take back
2% Revenue in new O&M business	achieved	• Over $2.07M (2%) in new business was attained in 2001
0.5% of revenue from consulting services	achieved	• First Nations is one example of a consulting contract
85% Client Satisfaction	in progress	• Personal interviews and bi-annual Client Satisfaction Survey

service excellence in action – first nations

In January 2001, OCWA competed for and was awarded a contract to review and evaluate 195 water and sewage treatment facilities in 127 First Nation communities. Twelve OCWA operators from various parts of the province visited the First Nation facilities, meeting with the First Nation operators to complete a questionnaire and share expertise. OCWA's Project Development and Technical Services Group ("PDG") completed their reports in October 2001. The reports made recommendations on sampling techniques, operator training, equipment assessments and capital works requirements. The findings of the PDG report are an important step in the adoption of stringent drinking water standards in First Nation communities.

The First Nations contract resulted in a follow-up study initiated in September 2001. The study involved gathering additional data and inputting the information into a Public Works Government Services Canada database. As a result of the initial project, OCWA has developed a closer relationship with First Nations communities, Indian and Northern Affairs Canada, and Public Works Government Services Canada.

OPERATIONAL EXCELLENCE

OCWA faces the challenges of managing an increasing workload and developing more comprehensive communications. The focus for 2001 was to continue implementation of projects initiated in 2000 (including OCWA's electronic operating system). The new Operational Research and Development Group ("ORDG") assumed ongoing management of these strategies in 2001. Team members are responsible for coordinating all activities related to optimization (including developing sludge reduction strategies), ISO 14001 registration and maintenance, operational technology and research and development. As a result of ORDG efforts OCWAware™ infrastructure was installed in twelve hubs in 2001. The Training and Development Group ("T&D") delivered OCWAware™ training to over 500 staff throughout the Agency.

operational excellence performance measures

Measure:	Outcome:	Notes:
Full Implementation of OCWAware™ in 12 Hubs	in progress	• OCWAware™ infrastructure installed.
Staff training for OCWAware™ in 12 Hubs	achieved	• 500 staff in 15 Hubs received OCWAware™ training in 2001
Detailed Sludge Reduction Strategy	in progress	• action plan drafted and software development initiated
Electricity Strategy	achieved	• Created optimization and customization plans and installed meters at key facilities

operational excellence in action – electronic operating system

The requirements imposed by the government's new water regulations, particularly detailed quarterly reporting and public disclosure of information, have further driven the need for up-to-date technology in our field operations. OCWAware™, OCWA's electronic operating system, was designed with these criteria in mind. The continued investment in OCWAware™ will assist clients to be in compliance with these regulations. OCWAware™ provides a cost-effective methodology to operate facilities and to meet stringent compliance requirements.

The OCWAware™ suite of products is currently comprised of: Outpost5™, Process Data Collection, Work Management System, the Standard Operating Procedures Database and Client Connection.

Outpost5™, OCWA's patented remote monitoring and control package, provides 24-hour facility monitoring. Through the use of Outpost5™, an alarm situation from a remote location can be diagnosed before a response crew is dispatched.

Process Data Collection ("PDC") is OCWA's operational data entry software. Paired with Outpost5™, PDC can deliver automated data collection, and real time performance analysis. In addition to its data collection and storage function, PDC can assist with process calculations, generate Performance Assessment Reports for the Ministry of the Environment, and provide source information for Client Connection.

OCWA's Work Management System ("WMS") is a value-based asset protection planning system. In short, it is an "intelligent" approach to maintenance. WMS reduces reactive repairs in favour of planned maintenance to gain further efficiencies.

Standard Operating Procedures ("SOPs") is OCWA's facility-specific database of best practice methods that ensure legislative requirements and operational efficiencies are maintained. The goal of SOPs is to standardize OCWA's commitment to workforce and operational excellence in all OCWA operated facilities.

Client Connection is an Internet-based client window into OCWA's operations. Client Connection gives clients hands-on access to secure financial, maintenance and performance information via the Internet. Drawing information from PDC, WMS, and OCWA's financial systems, Client Connection keeps clients up to date on the activity within their facilities.

WORKFORCE EXCELLENCE

Our strategy to hire and retain skilled resources was successfully improved in 2001. The objective was to retain expert knowledge and attract new technical experts in each discipline. To support this initiative, OCWA expanded existing programs in the following areas: 1) training, 2) the Succession Management System and 3) workforce contingency planning.

OCWA's staff turnover rate in 2001 was 3.7% (this number does not reflect retirements or staff who left because of a contract loss). OCWA posted 101 new employment opportunities in 2001. The competitions resulted in 80 positions being filled by qualified individuals; the remaining 21 postings were cancelled.

OCWA's T&D delivered 79 operational courses in 2001, providing 780 staff in 27 locations with information on the new regulations, OCWA's Environmental Management System and fostering operational expertise throughout the Agency.

The Succession Management System ("SMS") in place at OCWA was readdressed in 2001. The program was reviewed and gaps in its implementation were identified. Although full implementation of SMS was put on hold due to OPSEU contingency planning, the Vice President of Operations used the guidelines of SMS to successfully promote staff into Operational or Assistant Operational Management roles.

workforce excellence performance measures

Measure:	Outcome:	Notes:
staff turnover rate	3.7%	• Does not include retirements or staff who left because of a contract loss.
Number of qualified individuals hired	80	• 101 competitions were held • 21 were cancelled
40 hours training a year, per operator	90%	• average of 60.72 hours of training per legislated staff
Labour Disruption Contingency Plan.	Achieved	• Plan was fully developed

workforce excellence in action – environmental management system

OCWA's philosophy of workforce excellence has as its foundation a comprehensive training curriculum using both internal and external resources. Training is provided in OCWA's Environmental Management System ("EMS"), Occupational Health and Safety systems, operational technology systems, information technology and management skills. These are complemented by the Trainers for Excellence Network and a succession management program.

OCWA's strong environmental compliance record stems from effective EMS policies and a corporate commitment to staff training and development. OCWA's policy is to:

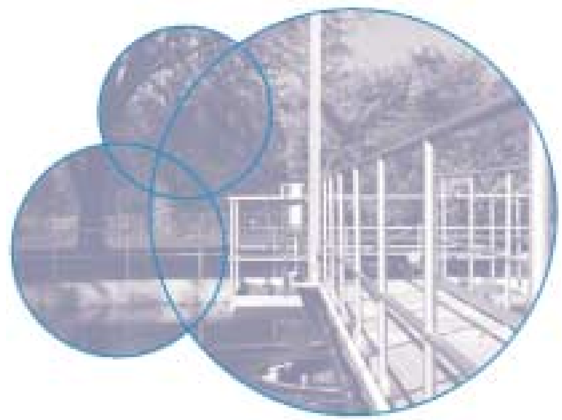
- Create and maintain a comprehensive Environmental Management System to contribute to operational excellence, and to identify and resolve any environmental risks associated with our operations.
- Continuously review and seek to improve our environmental performance on behalf of our clients.
- Strive to surpass the requirements of environmental laws and standards.
- Establish clear environmental objectives, practices and procedures and to train staff on the environmental aspects of our business and their responsibilities for environmental management.
- Review the facilities we operate to ensure environmental compliance.
- Communicate the environmental aspects of our operations to clients and other interested parties.
- Integrate sound environmental management into all aspects of our business.
- Contribute to a more sustainable future in the jurisdictions where we do business.
- Implement economic energy saving and waste reduction projects, promote the wise use of water and cooperate in the development of innovative technology for water/wastewater systems.
- Encourage suppliers to be environmentally responsible.

2002 AND BEYOND

The people of Ontario are very concerned with the quality of their water. Results of our 2000 Client Satisfaction Survey indicate an increased willingness by non-client municipalities to consider outsourcing their operations. OCWA's efforts in 2001 have highlighted the Agency's expertise in operations and maintenance ("O&M"). To continue OCWA's commitment to being "the best in the business of producing clean water" we will continue to:

- Anticipate and attend to client needs.
- Improve cost efficiency in our operations.
- Take measures to retain OCWA's certified operators.
- Ensure regulatory compliance.
- Seek new business.
- Work with up-to-date technology in O&M service delivery.
- Differentiate OCWA from its competitors.
- Base pricing decisions on long-term financial targets and government priorities.

maintaining standards of excellence



In 2001, OCWA focused on adapting operations to integrate the new regulatory requirements of Ontario's Drinking Water Protection Regulation 459/00.

The implementation of these regulations and substantial increases to utility and commodity costs presented financial challenges for the Agency.

Cash and Cash Equivalents at December 31, 2001, decreased 3% from 2000 ($136M to $132M), reflecting purchases of fixed assets, investments in Energy Management, repairs and maintenance costs, and severance and termination costs. The cumulative impact of the items was partially offset by cash from operating and financing activities.

OCWA's policy in 2001 was to invest cash with the Province of Ontario Savings Office ("POSO"). The average rate of return received from investments with POSO was 3.5%, a decrease of 2% from 2000.

There was a decrease of 11.6% in financing revenues as a result of lower interest rates on our invested cash and repayment of loans by our clients.

The Equity of the Province decreased by $4.6M from 2000 due to three factors: the net loss of $1.8M in operations, $1.2M in adjustments to Retained Earnings for Worker's Compensation Benefits and an adjustment of $1.6M to the Contributed Surplus relating to repair and maintenance costs inherited from the Ministry of Environment. OCWA has committed $7.5M for such repair and maintenance and to date $4.7M has been spent. The first two adjustments were made following new recommendations issued by the Canadian Institute of Chartered Accountants regarding accounting for employee future benefits. The decrease to the Contributed Surplus will continue as similar expenditures are funded through this account.

Investments Receivable for Water and Wastewater facilities showed a net decrease from 2000 of $.3M, following the repayment of loans. Investments Receivable for Facilities under Construction were $7.7M, which represents a net decrease of $.8M, reflecting payments received for projects completed by the Agency's Project Development and Technical Services Group.

In 2001, operation revenues increased by 6.5% from the year before; 3.1% of which is attributable to minor capital repair and 3.4% in O&M regular contracts billing.

Due to rate increases in electricity, natural gas, chemicals and insurance, operating expenses were higher than anticipated. In addition, a rise in gasoline costs contributed to cost increases in biosolids removal. As the majority of OCWA contracts were fixed-price, these hikes added pressure to this area of business.

The OCWAware™ suite of products continues to contribute to OCWA's compliance with environmental regulations and reporting to clients. Costs associated with OCWAware™, including the ongoing deployment of Outpost5™, research related to the suitability of handheld field devices, and Process Data Collection ("PDC") totaled $7.4M.

OCWA incurred costs of $.7M on behalf of the province for the Walkerton Public Inquiry.

Costs associated with the Property Transfer Initiative (Bill 107) decreased by $.3M from costs in 2000. The transfer of ownership of facilities from OCWA to municipalities is expected to be completed by the end of 2004. To date, $4.5M has been spent including $0.6M for 2001.

the ontario clean water agency is dedicated to the highest standards of integrity in its business

Management and the Board of Directors are responsible for the financial statements and all other information presented in this Annual Report. The financial statements have been prepared by Management in accordance with generally accepted accounting principles and, where appropriate, include amounts based on Management’s best estimates and judgments.

The Ontario Clean Water Agency is dedicated to the highest standards of integrity in its business. To safeguard Agency assets, the Agency has a sound set of internal financial controls and procedures that balance benefits and costs. Management has developed and maintains financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the bylaws of the Agency. Internal audits are conducted to assess management systems and practices, and reports are issued to the Senior Management Team.

The Board of Directors ensures that Management fulfills its responsibilities for financial information and internal control. The Board of Directors meets quarterly to oversee the financial activities of the Agency and at least annually to review the financial statements and the external auditors’ report thereon, and recommend them to the Minister of the Environment for approval.

The Provincial Auditor has examined the financial statements. The Provincial Auditor’s responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor’s Report outlines the scope of the Auditor’s examination and opinion.

Gail Beggs
President and
Chief Executive Officer

Louise Wickson
Vice President,
Finance and Corporate Services

To the Ontario Clean Water Agency,
The Minister of the Environment
And to the Minister of Finance

I have audited the balance sheet of the Ontario Clean Water Agency as at December 31, 2001 and the statements of income and retained earnings and of cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at December 31, 2001 and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting principles.

Toronto, Ontario
March 27, 2002

Erik Peters, FCA
Provincial Auditor

as at December 31, 2001
(in thousands of dollars)

	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$132,355	$136,347
Accounts receivable, net		
Municipalities and other customers	18,946	17,212
Ministry of the Environment	4	232
Waterworks Remediation (note 3)	2,784	7,358
Goods and services tax receivable	572	545
Prepaids	358	226
Current portion of investments receivable:		
Water and Wastewater facilities (note 4)	1,930	1,839
Facilities under construction (note 5)	5,381	2,675
	162,330	166,434
Non-current assets:		
Investments receivable for water and wastewater facilities (note 4)	52,859	53,223
Investments receivable for facilities under construction (note 5)	2,357	5,845
Loans receivable — Top-up loan (note 6)	636	713
Provincial assistance advances (note 7)	3,129	3,143
Fixed assets, net (note 8)	9,447	8,426
	68,428	71,350
Total assets	$230,758	$237,784

See accompanying notes to the financial statements

as at December 31, 2001
(in thousands of dollars)

	2001	2000
LIABILITY AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$21,237	$22,911
Current portion of long-term liabilities (note 11)	1,000	1,000
	22,237	23,911
Long-term liabilities:		
Municipal contributions payable (note 10)	720	1,597
Employee benefits (note 11)	6,621	6,455
	7,341	8,052
Equity of Ontario:		
Contributed surplus (note 13)	104,065	105,712
Retained earnings	97,115	100,109
	201,180	205,821
Contingencies (note 14)		
Total Liabilities and Equity	$230,758	$237,784

See accompanying notes to the financial statements

On behalf of the Board

Gail Beggs
Director

Gadi Mayman
Director

as at December 31, 2001
(in thousands of dollars)

	2001	2000
UTILITY OPERATIONS REVENUES:		
Utility operations	$110,782	$103,510
Fees	1,597	2,020
Total Operating Revenues	112,379	105,530
OPERATING EXPENSES		
Salaries and benefits (note 11)	36,918	33,439
Other operating expenses	76,004	67,393
Amortizing of fixed assets	1,592	2,003
Provision for operating losses	470	790
Electronic Operating Systems (note 1c)	7,430	13,282
Total Operating Expenses	122,414	116,907
NET LOSS — UTILITY OPERATIONS	(10,035)	(11,377)
FINANCING REVENUES:		
Revenues from investments	10,840	12,352
Interest of facilities under construction	287	242
Total Financing Revenues	11,127	12,594
FINANCING EXPENSES:		
Interest	75	111
Loan administration expenses	1,041	965
Provision for losses	1,000	257
Amortization of fixed assets	60	60
Total Financing Expenses	2,176	1,393
NET INCOME — FINANCING	8,951	11,201
NET LOSS FOR THE PERIOD BEFORE PROPERTY TRANSFER INITIATIVE AND WALKERTON INQUIRY COSTS	(1,084)	(176)
PROPERTY TRANSFER INITIATIVE (note 15)	(66)	(550)
WALKERTON INQUIRY COSTS (note 16)	(674)	–
NET LOSS FOR THE PERIOD	(1,824)	(726)
Retained earnings, opening balance	100,109	100,835
Worker's Compensation Benefits (note 11)	(1,170)	–
RETAINED EARNINGS, ENDING BALANCE	$97,115	$100,109

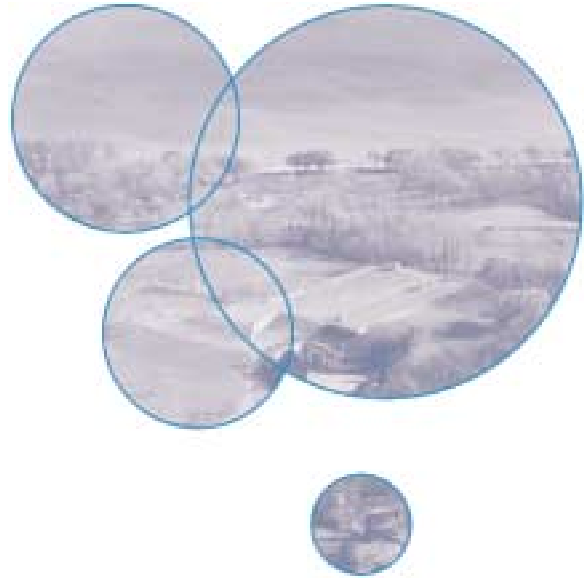
See accompanying notes to the financial statements

as at December 31, 2001
(in thousands of dollars)

	2001	2000
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Net loss	($1,824)	($726)
Items not affecting cash:		
Amortization of fixed assets	1,652	2,063
	(172)	1,337
Changes in non-cash operating working capital:		
• Accounts receivable	2,813	(15,112)
• Prepaids	(132)	(93)
• Accounts payable and accrued liabilities	(1,674)	3,914
• Ministry of the Environment	228	1,899
	1,235	(9,392)
NET CASH FLOWS FROM OPERATING ACTIVITIES	1,063	(8,055)
FINANCING ACTIVITIES:		
Decreases in investments receivable for water and wastewater facilities	273	3,404
Decreases in investments receivable for facilities under construction	782	4,606
Decreases in municipal contributions payable	(877)	503
Increase in long-term employee benefits payable	(1,004)	(228)
Decrease in provincial assistance advances receivable	14	2,632
Decreases in loans receivable — Top-up loan	77	71
Decreases in contributed surplus	(1,647)	(548)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(2,382)	10,440
Fixed assets - acquired	(2,673)	2,556
(DECREASE)/INCREASE IN CASH	(3,992)	4,941
CASH AND CASH EQUIVALENTS, OPENING BALANCE	136,347	131,406
CASH AND CASH EQUIVALENTS, ENDING BALANCE	$132,355	$136,347

See accompanying notes to the financial statements

for the year ended
December 31, 2001



GENERAL:

The Ontario Clean Water Agency (The "Agency") was established on November 15, 1993, under the authority of The Capital Investment Plan Act (the "Act").

In accordance with the Act, the Agency's objectives include:

- assisting municipalities to provide water and wastewater services on a cost-recovery basis by financing, planning, developing, building and operating such works and services;
- financing, building and operating water and wastewater facilities on behalf of Ontario on a cost-recovery basis; and
- providing these services so as to protect human health and the environment, encourage conservation of water resources and support Provincial policies for land use and settlement.

In accordance with the provisions of the Act, the Agency is incorporated under the laws of Ontario. The Agency is exempt from Federal and Provincial income taxes.

01 SIGNIFICANT ACCOUNTING POLICIES:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants. Included below are those accounting policies which are of significance to the Agency.

(a) Cash and cash equivalents:
Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased. Cash equivalents include $117 million invested with the Province of Ontario Savings Office.

(b) Fixed assets:
Major capital expenditures with a future useful life beyond the current year are capitalized at cost. Amortization is provided using the declining balance method with a half-year provision in the year of purchase if the asset is available for use. Fixed assets are being amortized at annual rates as follows:

Automotive equipment	25%
Furniture and fixtures	20%
Computer hardware	33.33%
Computer software	50%
Machinery and equipment	20%
Leasehold improvements	Life of the lease

(c) Electronic Operating Systems

As approved by the Board of Directors, the Agency continues to reflect spending on Electronic Operating Systems (OCWAware™) as an operating expense in the year in which it is incurred.

(d) Investments receivable for facilities under construction:

Interest on borrowings and other incremental expenditures relating to facilities are capitalized during the construction period. The Ontario Financing Authority sets the rate of interest at the start of the fiscal year.

(e) Utility operations:

A portion of the contractual arrangements with clients for the operation of water and wastewater treatment facilities provides for the recovery of all costs incurred in their operations plus a management fee. Revenue is recognized at the time such costs are incurred even though agreements may provide for the collection of a portion of those costs in future years. Accordingly, costs incurred in excess of amounts billed and to be recovered in future years are classified as "Investments receivable in water and wastewater facilities".

(f) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

02 FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liability approximates fair value due to the short-term maturities of these instruments. Due to prepayment options, the carrying value of the balance of the financial assets and long-term liabilities approximates their fair value.

03 WATERWORKS REMEDIATION / FACILITIES UNDER CONSTRUCTION

In 2000, the Agency responded to the request from the Province of Ontario to provide remediation services for the Town of Brockton (Walkerton). At December 31, 2001, $2.8 million of these costs have been reflected as Waterworks Remediation Receivable.

04 INVESTMENTS RECEIVABLE FOR WATER/WASTEWATER FACILITIES:

(a) These investments represent the outstanding principal portion of amounts receivable from clients for capital expenditures undertaken by the Agency on their behalf, and recoverable operating costs, if any, not billed. In addition, it includes capitalized interest on certain facilities that will be collected from clients during future years. Investments receivable for water and wastewater facilities are recorded at the lesser of both the outstanding principal and other capitalized amounts, and net realizable value.

(b) The investments receivable are supported by agreements, which bear interest at rates between 5.07% and 13.69%. Scheduled principal repayments of the investments are as follows:

(in thousands of dollars)	
2002	$1,930
2003	2,069
2004	2,218
2005	2,378
2006	2,550
Thereafter	43,644
	54,789
Less: Current portion	1,930
	$52,859

05 INVESTMENTS RECEIVABLE FOR FACILITIES UNDER CONSTRUCTION:

(a) "Investments receivable for facilities under construction" represent new water and wastewater facilities or major capital improvements to existing facilities that have been undertaken by the Agency on behalf of its clients. Annually, the net recoverable amount from the customer is transferred to "Investments receivable for water and wastewater facilities". Certain clients pay the entire balance of their amount, accumulated as facilities under construction, within one year.

(b) In the current period, the Agency capitalized interest amounting to $0.3 million (2000 - $0.2 million) to investments receivable for facilities under construction.

06 LOANS RECEIVABLE — TOP-UP LOANS:

The Agency made loans to municipalities to finance water and wastewater facilities that have received provincial assistance under the Municipal Assistance Program. The loans were made for terms of up to 20 years at interest rates between 8.1% and 8.85% set by the Province at the time the loan was granted.

07 PROVINCIAL ASSISTANCE ADVANCES:

The agency finances the construction of certain facilities on behalf of municipalities. A portion of the construction costs is eligible for provincial assistance grants provided by the Ministry of the Environment.

08 FIXED ASSETS:

(in thousands of dollars)	Cost	Accumulated Amortization	**Net Dec. 31 2001**	Net Dec 31 2000
Furniture and fixtures	$1,556	($817)	**$739**	$731
Automotive equipment	95	(42)	**53**	51
Computer hardware	4,992	(3,392)	**1,600**	1,358
Computer software	2,339	(1,809)	**530**	452
Leasehold improvements	6,197	(1,280)	**4,917**	4,877
Machinery and equipment	559	(215)	**344**	681
	15,738	(7,555)	**8,183**	8,150
Capital Work in Progress	1,264	–	**1,264**	276
	$17,002	($7,555)	**$9,447**	$8,426

09 LEASE COMMITMENTS:

Annual lease payments under operating leases for rental of office equipment, premises and vehicles in aggregate are as follows:

(in thousands of dollars)	
2002	$1,429
2003	1,280
2004	1,205
2005	1,011
2006	700
Thereafter	1,440
	$7,065

10 MUNICIPAL CONTRIBUTIONS PAYABLE:

(in thousands of dollars)	**Dec. 31, 2001**	Dec 31, 2000
Municipal contributions held for future repairs	**$1,812**	$2,226
Municipal operating expense(repayment) prepayments	**(1,092)**	(629)
	$720	$1,597

At December 31, 2001, the Agency held funds that will be used for future repairs amounting to $1.8 million (2000 - $2.2 million). The $1.8 million is included in cash and short-term investments.

11 EMPLOYEE BENEFITS:

The Agency is responsible for the accrued employee termination payments.

The costs of these employee future benefits have been estimated to amount to $7.6 million (2000 - $7.5 million) of which $1.0 million has been classified as current liability. The amount accrued in 2001 was $0.6 million (2000 - $0.6 million) and is included in salaries and benefits expense in the Statement of Income and Retained Earnings.

Also effective January 1, 2001, the Agency recognized its workers compensation obligation in the amount of $1.2 million for the prior period ending December 31, 2000. This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2000. This is the first year of recognizing this obligation in accordance with the Canadian Institute of Chartered Accountants new recommendations for accounting for employee future benefits. These new recommendations have been adopted on a retroactive basis without restatement. The impact on prior years has been reflected as an adjustment to opening retained earnings. The valuation at December 31, 2001 is not expected to be ready until after the date of the financial statements preparation. It is management's opinion that the balance at December 31, 2001 will not be materially different.

The cost of post-retirement, non-pension employee benefits are paid by Management Board Secretariat and are not included in the Statement of Income and Retained Earnings.

12 PENSION PLAN:

The agency provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) established by the Province of Ontario. The Agency's contribution related to the pension plans for the period was $1.9 million (2000 - $1.8 million) and is included in salaries and benefits in the Statement of Income and Retained Earnings.

13 CONTRIBUTED SURPLUS:

The opening contributed surplus was received from the Province of Ontario in the form of the book value of net assets in excess of obligations assumed. Included in the closing balance are the following:

(in thousands of dollars)	December 31, 2001	December 31, 2000
Opening balance, January 1	$105,712	$106,260
Adjustments to opening balance	(1,647)	(548)
	$104,065	$105,712

The adjustment to the opening balance relates to repair and maintenance costs that were agreed to prior to the establishment of the Agency. Of the total $7.5 million committed for such repair and maintenance, a cumulated $4.7 million has been spent.

14 CONTINGENCIES:

Litigation

The Agency is the defendant in a number of lawsuits. In most instances, these actions relate to the period prior to the establishment of the Agency on November 15, 1993. Some of these claims are covered by insurance after the application of a deductible, ranging from $2,500 to $50,000, depending on when the event of the claim occurred and the nature of the claim. The outcome of the lawsuits cannot be determined at this time. Losses, if any, will be accounted for in the period of settlement.

15 PROPERTY TRANSFER INITIATIVE:

In 1997, the Province passed legislation requiring the transfer of ownership of water and wastewater facilities from the Agency to municipalities. The Property Transfer Initiative captures all real estate conveyance costs associated with the title transfers. To date, $4.5 million has been spent and an additional $0.156 Million is expected to be spent and will be recorded in the period of the transfer. The transfers must be completed by the year 2004.

16 WALKERTON INQUIRY COSTS

The Ontario Clean Water Agency incurred on behalf of the Province of Ontario $0.674 million for expenses related to the Walkerton public Inquiry.

17 RELATED PARTY TRANSACTIONS:

As a result of the relationship of the Agency with the Province, the following related party transactions exist and have been disclosed in the notes to the financial statements:

(a) Transactions with the Ministry of the Environment
(b) Transactions with the Province of Ontario Savings Office
(c) Transactions with the Management Board Secretariat

18 SALARIES:

The "Public Sector Salary Disclosure Act, 1996" requires disclosure of Ontario public-sector employees paid an annual remuneration in excess of $100,000. The amounts paid by OCWA in 2001 are listed below:

Name	Position	Remuneration Paid	Taxable Benefits
Paul Scott	President and Chief Executive Officer*	$154,479	$331
Michael Brady	General Counsel	$178,235	$363
Robin Kind	Legal Counsel	$150,338	$298
Lauren Sasaki	Legal Counsel	$109,691	$217
Louise Wickson	V.P., Finance and Corporate Services	$110,330	$253
Dante Pontone	Chief Information Officer	$101,432	$242

* Leave of absence effective November 16, 2001

19 COMPARATIVE FIGURES:

The December 31, 2000 comparative figures have been reclassified where necessary to conform to the current year's presentation.

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BOARD OF DIRECTORS

CHAIR

Gail L. Beggs
President and CEO (Acting)
Ontario Clean Water Agency
(Term: 11/28/01 to 11/27/02)

DIRECTORS

Cameron Clark
Deputy Minister
Ministry of Northern Development and Mines
(Term: 11/28/01 to 11/27/04)

John Fleming
Deputy Minister
Ministry of Community and Social Services
(Term: 11/24/01 to 11/23/04)

Gadi Mayman
Executive Director
Ontario Financing Authority
(Term 08/23/00 until a successor has been appointed)

Jan Rush
Deputy Minister
Ministry of the Environment
(Term: 04/11/01 to 04/11/04)

John Burke
Deputy Minister
Ministry of Natural Resources
(Term: 11/28/01 to 11/27/04)

SECRETARY

Michael Brady
General Counsel
Ontario Clean Water Agency

OFFICERS OF THE AGENCY

Dan Atkinson
Vice President
Operations

Michael Brady
General Counsel

Dante Pontone
Chief Information Officer

Nick Reid
General Manager
South Peel

Linda Chiason
Vice President
Business Development

Gail Beggs
President and CEO (Acting)

Paul Scott
President and CEO (leave of absence)

Louise Morrow Wickson
Vice President
Finance and Corporate Services

Sandra Witlarge
Controller (Acting)

Ce rapport a également été publié en français.