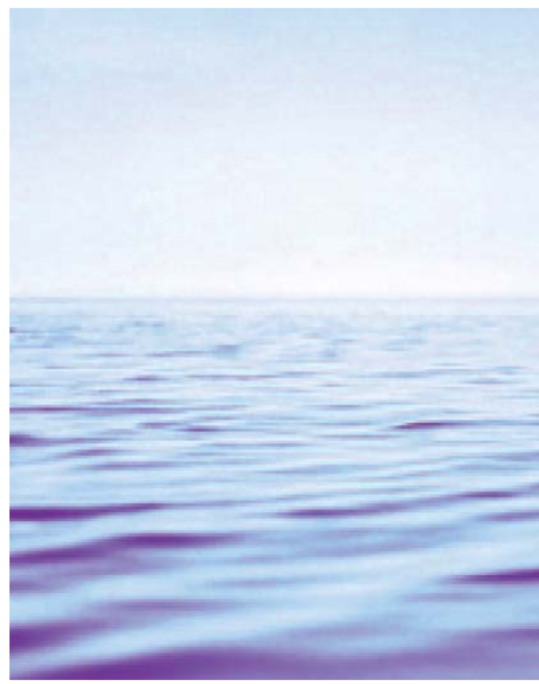
ontario clean water agency **2002** annual report



Ontario Clean Water Agency
Agence Ontarienne Des Eaux

The Ontario Clean Water Agency (OCWA) is a Provincial Crown Agency established under the *Capital Investment Plan Act, 1993*. OCWA's primary purpose is to assist municipalities provide water and wastewater services in a reliable, cost-effective and environmentally responsible manner.

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corporate profile

The Ontario Clean Water Agency is a Provincial Crown Agency committed to being the best in the business of providing reliable clean water services and protecting public health and the environment in the communities it serves.

OCWA is an established leader in the operation, maintenance and management of water and wastewater treatment facilities and their associated distribution and collection systems for municipalities and for institutional, commercial and industrial clients.

OCWA is currently the largest operator of municipal water and wastewater facilities in Ontario. The facilities OCWA operates range in size from small wells and pumping stations to large-scale urban water and wastewater systems. The Agency operates approximately 400 water and wastewater facilities that represent 31% of Ontario's water facilities and 47% of its wastewater facilities. OCWA competes for contracts in the marketplace by offering comprehensive water and wastewater services to municipal, institutional, commercial and industrial clients. In addition to operations and maintenance (O&M), OCWA offers professional services including project development and technical consulting.

OCWA's strength is its people. The Agency's staff is made up of the most experienced water and wastewater treatment experts in Canada. OCWA's staff have been providing safe and reliable clean water services for generations. The Agency's regional and corporate offices provide specialist and administrative services support to OCWA's field staff. Since its inception in 1993, OCWA has built a solid tradition of reliability and technical expertise.



mission and values

MISSION STATEMENT

OCWA's mission is 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. OCWA is dedicated to achieving its main objectives:

- 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.

CORPORATE VALUES

Our values are the foundation of everything OCWA does:

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

Carl Griffith
President and CEO
09/19/02 to present

Gail Beggs
President and CEO (acting)
11/28/01 to 09/18/02

president's message

As in other fiscal years, 2002 was a year of accomplishments and challenges. Transitions in leadership, an evolving regulatory landscape, and a labour disruption tested the planned performance of the Agency and necessitated in-year adjustments to operating targets. As OCWA's new president, I am pleased to report that the Agency's commitment to the provision of clean water remained the top priority during this period of change.

Significant among the successes of 2002 was the management of the eight-week labour disruption without compromising the quality of service to any of the facilities that we operate on behalf of our clients. During the last quarter, a customer survey revealed that our municipal clients continued to view our performance as good or excellent.

Consistent with our objective of operational excellence, eight new Process and Compliance Technicians were hired to strengthen our capability to meet new regulatory requirements and new training programs were developed and implemented for our operators.

In the area of governance, we launched a review of internal practices to assure ourselves that our current administrative policies are appropriate. Likewise, OCWA's first three-year Business Plan effectively provides the ability to measure, monitor and manage our performance in the following key areas of our business:

- Operational Excellence: Establishing a leadership role in the water management industry through continuous improvement and commitment to service excellence;
- Business Excellence: Taking a customer-focused approach to efficient production and delivery of quality services to clients; and
- Workforce Excellence: Attracting and retaining a prepared and motivated workforce through a commitment to continuous learning and skills development.

PRESIDENT'S MESSAGE

In a year that challenged us in many ways, our team met contract renewal targets and won a competitive bid in the County of Middlesex. However, declining revenues and proportionally higher expenses resulted in a Net Loss of $3.4 million.

The 2003-05 Business Plan commits the senior management team to the achievement of a full cost recovery position for the Agency.

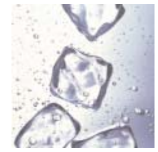
Ultimately, our accomplishments speak to the skills of our highly qualified and dedicated employees. Throughout the reporting period we continued our commitment towards continuous learning. Programs were developed that position us to be an employer of choice thereby allowing us to attract and retain the best entrants in the workforce.

In conclusion, our direction is showing positive results. I am confident that the Agency will continue to play an essential role in the provision of clean water in the Province of Ontario for 2003 and beyond.

Regards,

Carl Griffith
President and Chief Executive Officer





management discussion and analysis

The Ontario Clean Water Agency continues to build on the strong foundation of its corporate values. Carrying the impetus for growth forward from 2001, 2002 witnessed the successful management of a longer than expected labour disruption and a remarkable year for contract renewals.

The Agency continued to experience financial pressures. Historically, the operation and maintenance (O&M) business has yielded low margins. The fixed nature of 70% of our three to five year contracts limits OCWA's ability to manage short-term financial fluctuations caused by external factors beyond the Agency's control. The most significant financial pressures that the Agency faced in 2002 were increased electricity, labour and insurance costs that made it extremely challenging to achieve positive financial results. The loss of the Region of London/Elgin and City of Kingston contract also negatively affected our revenue for 2002. These factors contributed to the $3.4 million Net Loss that the Agency experienced in 2002.

GOVERNANCE

The Ontario Clean Water Agency is committed to effective management practices and efficient processes with integrity that produce enhanced performance. As an Agency of the Crown we take a great deal of pride in our ability to promote corporate fairness, transparency and accountability. In 2002 the following was achieved towards improving corporate governance:

- The structural reorganization was completed which focused the Agency on improving the delivery of water and wastewater services in Ontario;
- A comprehensive Business Plan for 2003 through 2005 was developed that clearly defines OCWA's strategic direction with measurable outcomes;
- A review of our delegations of authority was initiated.

The Agency will continue to review its internal practices and procedures to improve efficiencies and accountabilities.

OPERATIONAL PERFORMANCE

The strategies in the Agency's 2002 Business Plan focused on maximizing OCWA's business opportunities and organizational strengths and minimizing the impacts of the challenges faced by the Agency. The objectives were encapsulated in priorities around Service Excellence, Operational Excellence and Workforce Excellence.

Service Excellence

Municipal Services 2002 - New business and retention strategy

Superior client service was identified as a prime focus for 2002. The Agency capitalized on its ability to provide high quality water and wastewater services, good value for money, an experienced and expert workforce, and immediate access to operating and financial information. The Agency had targeted $5.0 million in new business and 90% contract retention for the year. By year-end 2002, OCWA had signed 28 new clients representing $4.0 million in annual revenue and achieved the 90% contract renewal target.

Labour Disruption

OCWA's greatest strength is its staff. This was evident during the eight-week labour disruption that occurred in March through May of 2002. Whether it was the Agency's operators providing essential services to the communities that OCWA serves, the dedicated management, or the strike center employees providing 24/7 support to the staff in the field, all members of the Agency showed their dedication to OCWA's mission by providing uninterrupted clean water services.

The Agency was successful in addressing strike-related issues and maintaining continuous service at all facilities throughout the duration of the strike. OCWA's ability to respond effectively through the labour action was facilitated by the detailed contingency plans that were completed for each operational division as well as key corporate areas. Efforts were made to ensure that all OCWA facilities would remain secure during a labour disruption. Outpost5™ was an invaluable tool to monitor facilities remotely.

During the process of collective bargaining, an agreement was made to establish pay-for-certification for OCWA employees who continue to attain higher levels of certification. Under this agreement, employees will be compensated for each individual license that they acquire and maintain.

Service Excellence Measures

Measure:	Outcome:	Notes:
$5M in new business.	Not Achieved	$4.0M in new business
90% contract retention.	Achieved	
Develop new pricing policy.	Achieved	Interim policy in place pending final implementation.
Complete contingency plans for all facilities before March.	Achieved	
Provide strike related training for all managers.	Achieved	

Operational Excellence

Remote Monitoring Implementation (OCWAware™)

OCWA's Remote Monitoring Implementation strategy was developed to respond to workload management challenges and more comprehensive reporting requirements relating to new drinking water regulations.

The planned objective for 2002 was to complete the implementation of OCWAware™ in locations where work had commenced and to initiate installations at facilities where significant net benefit for the Agency could be achieved.

A number of improvements to the Outpost5™ tool were implemented during the first quarter of 2002 in order to ensure availability of Outpost5™ in the event of a labour disruption. These improvements allowed OCWA to effectively monitor a large number of water and wastewater facilities during the labour disruption maintaining both continuity of service and compliance.

Deployment of Outpost5™ in facilities started in 2001 was completed in 2002, resulting in 91 additional panels in the eastern area of the province being integrated into the corporate OCWAware™ system. There were 80 installations of Outpost5™ panels in new and existing facilities initiated in 2002.

Biosolids Management

In assessing changes to the regulatory environment governing the treatment and disposal of biosolids, OCWA determined in 2001 that long-term strategies would be required in order to respond to the *Nutrient Management Act*.

OCWA focused its efforts in 2002, on low cost, short-term options including the negotiation of more favourable biosolids haulage contracts. OCWA continued to assess available and emerging technologies while waiting for the introduction of the *Nutrient Management Act*. The Agency monitored the progress of several municipally led projects aimed at producing "Class A" biosolid end products to determine their success rate and examine the applicability of their methodology to OCWA.

Operational Excellence Measures

Measure:	Outcome:	Notes:
Complete implementation of OCWAware™ in locations where work has commenced.	Achieved	91 additional Outpost5™ panels were integrated into the OCWAware™ system in 2002.
Enhance development of Outpost5™ in order to provide sufficient reliability during labour disruption.	Achieved	
Initiate new OCWAware™ installations where a significant net benefit exists.	Achieved	Installed 80 new Outpost5™ panels in 2002.
Develop long-term strategies to prepare for anticipated "Class A" sludge requirements.	Re-profiled	Decision was made to delay long-term strategy in order to assess the implications of the *Nutrient Management Act*.

Workforce Excellence

Revitalization

Water and wastewater treatment facilities are becoming more technologically sophisticated in an effort to improve the safety, reliability and cost-effectiveness of operations. Modern facilities require operators with basic computer and instrumentation skills in addition to operational expertise.

In 2002, OCWA made the commitment to invest in further training and development for existing staff to enhance the necessary skills to operate newly automated systems. As part of this review, job specifications were to be assessed to ensure operators have basic computer and instrumentation skills to operate at a modern facility. New collective agreement implementation issues prevented the job specification review from taking place in 2002. Project plans were developed and a classifications committee was established to perform this review in 2003.

Ninety-eight percent of OCWA's operators achieved the regulated 40 hours of training in 2002 and fulfilled the requirements of *Regulation 435, s. 17(1)*. On average, each operator required to meet the 40-hour training requirement, achieved 50 hours of training in 2002. Seven (7) operators did not meet the requirements. OCWA has updated its database to track the fulfillment of operator training requirements and prorate staff who are on Long Term Leave and staff who enter/leave OCWA at various times of the year to ensure that the Agency meets all regulatory requirements.

OCWA's Environmental Compliance Course was updated and delivered to 82 managers and staff in 2002. The Agency will encourage all staff to enroll in the Environmental Compliance Course by the end of 2005. Other operational courses that have a regulatory component were modified to reflect regulatory changes.

Rejuvenation

OCWA's rejuvenation strategy proposed the recruitment of new staff early in 2002 to work alongside retiring employees to ensure transfer of expertise before these employees reach their retirement dates. This initiative was not achieved as planned. The Agency re-profiled this initiative to address new regulatory requirements and the budget for the Rejuvenation project was reallocated to hire eight Process and Compliance Technicians in 2002 and to offset increased operational costs.

In an effort to further develop the workforce, OCWA has formed partnerships with various educational institutions across Ontario to provide co-operative placements for students throughout the Agency. In 2002, thirty-one students were hired to gain valuable experience in the water and wastewater industry and three graduates from previous placement terms were hired permanently by the Agency.

Workforce Excellence Measures

Measure:	Outcome:	Notes:
All managers to complete Labour Relations courses.	Not Achieved	Labour Relations course developed and piloted in 2002. All remaining managers will take the course by the end of 2003.
Review job specifications to ensure operators have basic computer and instrumentation skills.	In Progress	Project plans developed to address review. Job classifications committee established.
Rejuvenation Strategy: $2M in salaries and benefits (over two years) to recruit new operations staff.	Re-profiled	Hired eight Process and Compliance Technicians in 2002. Balance of funds reallocated to offset rising operational costs. (see Financial Discussion)
40 hours training per year, per operator.	Not Achieved	98% of operators met the legislated 40 hour requirement. Seven (7) did not achieve the 40 hour requirement.
Pay-for-Certification	Achieved	(see page 8 of this report)

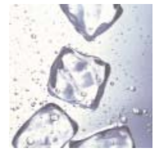
OUTLOOK FOR 2003

OCWA is currently working towards meeting the goals established in the Agency's 2003-05 Business Plan. The Plan identifies both immediate priorities and long-term strategies to position OCWA to achieve its mission in a rapidly changing environment. These priorities focus on:

A) Providing clean water services that our clients and shareholder can rely on by:
- Assuring compliant operations within a changing regulatory environment;
- Improving operational performance through the continued implementation of OCWAware™, the Agency's electronic monitoring system.

B) Maintaining OCWA's competitiveness through implementation of strategies for:
- New business and contract retention;
- Cost Management.

C) Attracting and retaining prepared and motivated employees through continuous learning and skills development. Specifically OCWA is implementing:
- Operator re-certification for staff holding "grandparented licenses;"
- Workforce revitalization and retention programs.



financial discussion

OCWA experienced a Net Loss of $3.4 million in 2002. Factors contributing to the Agency's financial performance are directly attributable to a Net Loss in Utility Operations, declining income from financing and increased corporate costs.

The Net Loss in Utility Operations was caused by significantly higher utility, salary and insurance costs. While chemical and sludge haulage cost increases tended to mirror inflation rates, electricity costs increased significantly since May 2002. The Agency acted on provisions included in some fixed price agreements and recovered approximately $3.5 million of these costs from clients.

The result of the collective bargaining agreements raised payroll costs by $1.5 million in 2002, excluding overtime and merit increases.

Comprehensive and general liability insurance increased by $0.75 million in 2002. The increase is due to a number of occurrences in recent years that resulted in payouts by the insurers, which exceeded the policy premium paid by OCWA. Insurance rates also continue to increase as a result of the heightened awareness of the liability of operating water and wastewater treatment facilities and a general increase in insurance rates that followed events of September 11, 2001.

Net income from financing, although still profitable, decreased from 2001 levels by $2.3 million. This decrease related primarily to a decrease of $9.3 million in the Agency's loan portfolio due to municipalities responding to falling interest rates in the marketplace by opting for early retirement of their existing loans, which currently bear interest at rates as high as 13%. In addition, the decrease in market interest rates impacted on the Agency's investment income from cash investments. The average rate of return received from the Province of Ontario Savings Office (POSO) decreased in 2002 from 2001.

In 2002, OCWA's corporate costs increased. A slight increase was anticipated for 2002 as a result of the completion of the structural reorganization that was initiated in 2001. The repositioning provided a greater focus on operations and improved service delivery to clients. Unplanned increases in 2002 resulted from costs associated with OCWAware™, the Agency's electronic operating system. The Province compensated OCWA for costs related to its participation in the Province's labour disruption contingency planning exercise and strike response. Compensation was made to avoid the passing of the Agency's labour disruption costs to its municipal clients.

The Equity of the Province decreased by $6.1 million (from $201.2 million to $195.1 million). Contributed Surplus decreased by $2.7 million as a result of funding repair and maintenance costs inherited from the Ministry of the Environment. The decrease will continue as other similar expenditures are funded through this account. Retained Earnings decreased by $3.4 million as a result of the Net Loss.



manager's responsibility for financial information

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.

Carl Griffith
President and
Chief Executive Officer

Brenda Baker
Vice President
Finance and Corporate Services



auditor's report

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, 2002 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, 2002 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 12, 2003

Eric Peters, FCA
Provincial Auditor

As at December 31, 2002
(in thousands of dollars)

	2002	2001
Current assets:		
Cash and cash equivalents	**$131,831**	$132,355
Accounts receivable, net		
Municipalities and other customers	**22,337**	18,946
Ministry of the Environment	**2,500**	4
Waterworks Remediation (note 3)	**-**	2,784
Goods and services tax receivable	**1,094**	572
Prepaids	**497**	358
Current portion of investments receivable:		
Water and wastewater facilities (note 4)	**1,632**	1,930
Facilities under construction (note 5)	**2,252**	5,381
	162,143	162,330
Non-current assets		
Investments receivable for water and wastewater facilities (note 4)	**43,832**	52,859
Investments receivable for facilities under construction (note 5)	**1,771**	2,357
Loans receivable - Top-up loan (note 6)	**552**	636
Provincial assistance advances (note 7)	**2,129**	3,129
Fixed assets, net (note 8)	**9,043**	9,447
	57,327	68,428
Total Assets	**$219,470**	$230,758

See accompanying notes to the financial statements

As at December 31, 2002

(in thousands of dollars)

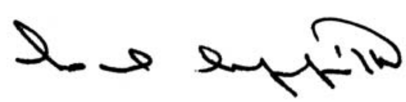
	2002	2001
Current liabilities:		
Accounts payable and accrued liabilities	**$17,751**	$21,237
Current portion of long-term liabilities (note 11)	**1,000**	1,000
Deferred Revenue	**35**	-
	18,786	22,237
Long-term liabilities:		
Municipal contributions payable (note 10)	**211**	720
Employee benefits (note 11)	**6,404**	6,621
	6,615	7,341
Equity of Ontario:		
Contributed surplus (note 13)	**100,330**	104,065
Retained earnings	**93,739**	97,115
	194,069	201,180
Contingencies (note 14)		
Total Liabilities and Equity	**$219,470**	230,758

See accompanying notes to the financial statements

On behalf of the Board

Gadi Mayman

Director



Carl Griffith

Director

For the year ended December 31, 2002
(in thousands of dollars)

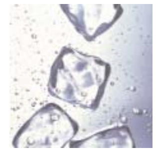
	2002	2001
Utility Operations Revenues:		
Utility operations	**$106,815**	110,782
Fees	**1,661**	1,597
Total Operating Revenues	**108,476**	112,379
Operating Expenses:		
Salaries and benefits (note 11)	**39,428**	36,918
Other operating expenses	**73,697**	76,004
Amortization of fixed assets	**1,920**	1,592
Provision for operating losses	**56**	470
Electronic Operating Systems (note 1c)	**3,347**	7,430
Total Operating Expenses	**118,448**	122,414
Net Loss - Utility Operations	**(9,972)**	(10,035)
Financing Revenues:		
Revenues from investments	**7,591**	10,840
Interest on facilities under construction	**208**	287
Total Financing Revenues	**7,799**	11,127
Financing Expenses:		
Interest	**60**	75
Loan administration expenses	**1,063**	1,041
Provision for losses	**-**	1,000
Amortization of fixed assets	**60**	60
Total Financing Expenses	**1,183**	2,176
Net Income - Financing	**6,616**	8,951
Net Loss for the Period Before Property Transfer Initiative and Walkerton Inquiry Costs	**(3,356)**	(1,084)
Property Transfer Initiative (note 15)	**(20)**	(66)
Walkerton Inquiry Costs	**-**	(674)
Net Loss for the Period	**(3,376)**	(1,824)
Retained earnings, opening balance	**97,115**	100,109
Workers Compensation Benefits (note 11)	**-**	(1,170)
Retained earnings, ending balance	**$93,739**	$97,115

See accompanying notes to the financial statements

For the year ended December 31, 2002
(in thousands of dollars)

	2002	2001
Cash provided by (used for)		
Operating activities:		
Net Loss	**($3,376)**	($1,824)
Items not affecting cash:		
Amortization of fixed assets	**1,980**	1,652
	(1,396)	(172)
Changes in non-cash operating working capital		
• Accounts receivable	**(1,129)**	2,813
• Prepaids	**(139)**	(132)
• Accounts payable and accrued liabilities	**(3,486)**	(1,674)
• Ministry of the Environment	**(2,496)**	228
• Deferred revenue	**35**	-
	(7,215)	1,235
Net cash flows from operating activities	**(8,611)**	1,063
Financing Activities:		
Decrease in investments receivable for water and wastewater facilities	**9,325**	273
Decrease in investments receivable for facilities under construction	**3,715**	782
Decrease in municipal contributions payable	**(509)**	(877)
Decrease in long-term employee benefits payable	**(217)**	(1,004)
Decrease in provincial assistance advances receivable	**1,000**	14
Decrease in loans receivable - Top-up loan	**84**	77
Changes in contributed surplus	**(3,735)**	(1,647)
Net cash flows from financing activities	**9,663**	(2,382)
Fixed assets - acquired	**(1,576)**	(2,673)
Decrease in Cash	**(524)**	(3,992)
Cash and Cash Equivalents, Opening Balance	**132,355**	136,347
Cash and Cash Equivalents, Ending Balance	**$131,831**	$132,355

See accompanying notes to the financial statements

notes to financial statements

GENERAL:

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

1. 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 $123 million invested with the Province of Ontario Savings Office.

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

(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
PEMS - Energy Management Equipment	Life of the contract

(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 rate of interest is set at the start of the fiscal year by using the average one-year interest rate of the prior year, paid by the Ontario Financing Authority.

(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."

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

(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.

2. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities 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.

3. WATERWORKS REMEDIATION

In 2000, the Agency responded to the request from the Province of Ontario to provide remediation services for the Municipality of Brockton (Walkerton). At December 31, 2002, the costs incurred have been paid in full by the Municipality of Brockton.

4. INVESTMENTS RECEIVABLE FOR WATER AND 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.

4. INVESTMENTS RECEIVABLE FOR WATER AND WASTEWATER FACILITIES (continued):

(b) The investments receivable are supported by agreements that bear interest at rates between 2.0% and 13.69%. Scheduled principal repayments of the investments are as follows:

	(in thousands of dollars)
2003	$1,632
2004	1,746
2005	1,868
2006	1,998
2007	2,138
Thereafter	36,082
	45,464
Less: Current portion	1,632
	$43,832

5. 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 $0.2 million (2001- $0.3 million) to investments receivable for facilities under construction.

6. 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.

7. PROVINCIAL ASSISTANCE ADVANCES:

The agency finances the construction of certain facilities on behalf of municipalities. Portions of the construction costs are eligible for grants provided by the Ministry of the Environment.

8. FIXED ASSETS:

(in thousands of dollars)	Cost	Accumulated Amortization	**Net Dec. 31, 2002**	Net Dec. 31, 2001
Furniture and fixtures	$1,645	$(972)	**$673**	$739
Automotive equipment	155	(63)	**92**	53
Computer hardware	5,553	(3,967)	**1,586**	1,600
Computer software	2,639	(2,149)	**490**	530
Leasehold improvements	6,503	(1,965)	**4,538**	4,917
Machinery and equipment	579	(235)	**344**	344
Energy Management Equipment	1,184	(81)	**1,103**	--
	$18,258	$9,432	**$8,826**	$8,183
Capital Work in Progress	217	--	**217**	1,264
	$18,475	$9,432	**$9,043**	$9,447

9. 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)
2003	$1,611
2004	1,523
2005	1,288
2006	933
2007	736
Thereafter	818
	$6,909

10. MUNICIPAL CONTRIBUTIONS PAYABLE:

(in thousands of dollars)	**Dec. 31, 2002**	Dec. 31, 2001
Municipal contributions held for future repairs	**$1,433**	$1,812
Municipal operating expense (repayment) prepayments	**(1,222)**	(1,092)
	$211	$720

At December 31, 2002, the Agency held funds that will be used for future repairs amounting to $1.4 million (2001 - $1.8 million). The $1.4 million is included in cash and cash equivalents.

11. NON-PENSION EMPLOYEE FUTURE BENEFITS:

The Agency is responsible for the accrued employee termination payments.

The costs of these employee future benefits have been estimated to amount to $7.4 million (2001 - $7.6 million) of which $1.0 million has been classified as current liability. The amount accrued in 2002 was $0.6 million (2001 - $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 available actuarial calculations provided by the Workplace Safety and Insurance Board (WSIB) as at December 31, 2000. This is being done in accordance with the Canadian Institute of Chartered Accountants new recommendations for accounting for employee future benefits. These new recommendations were adopted in 2001 on a retroactive basis without restatement. The impact on years prior to 2001 has been reflected as an adjustment to opening retained earnings.

The valuation at December 31, 2002 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, 2002 will not be materially different. Adjustment to the estimated WSIB obligation cumulative balance, if any, will be made in the year the actual balance is provided by WSIB.

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. These plans are accounted for as defined contribution plans, as the Agency has insufficient information to apply defined benefit accounting to these pension plans. The Agency's contribution related to the pension plans for the period was $1.4 million (2001 - $1.9 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)	**Dec. 31, 2002**	Dec. 31, 2001
Opening balance, January 1	**$104,065**	$105,712
Adjustments to opening balance	**(3,735)**	(1,647)
	$100,330	$104,065

The adjustment to the opening balance relates to Ministry programs in place prior to the establishment of the Agency. The funds committed for repair and maintenance are spent on various undertakings, the largest of these undertakings has a spending limit of $7.5 million for capital repairs as approved by the Agency's Board of Directors. Of the $7.5 million approved, a cumulated $4.8 million has been spent. On other undertakings, a cumulated $2.6 million has been spent. The adjustment also includes provision for doubtful accounts on provincial assistance advances.

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.

14. CONTINGENCIES (continued):

GOODS AND SERVICES TAX (GST)

As a result of a recent GST audit by the Canada Customs and Revenue Agency (CCRA), the Agency has been advised by the CCRA that it is entitled to claim a refund for some of the GST on certain purchases, as the Agency had not claimed the full amount of the rebate to which it is entitled. The amount of the claim is not known at this time since the Agency is in the process of preparing the amount to be claimed from the CCRA. The refund will be accounted for in the period it is received.

ELECTRICITY REBATES

Pursuant to certain statutes and agreements related to the government's restructuring of the electricity market, it is likely the Agency will be entitled to certain rebates related to the price it has incurred for electricity. The amount of the rebates will be based on the amount of energy consumed that is subject to the rebate mechanisms. The Agency will distribute a portion of the rebates to customers who are contractually eligible to share in such rebates. The number of rebates the Agency will receive and the portion of such rebates to be distributed to its customers are not determinable at this time. The Agency will therefore account for the receipt and distribution of the rebates in the year they are made.

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 $0.136 million is expected to be spent and will be recorded in the period of the transfer. The transfers must be completed by the end of 2004.

16. 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

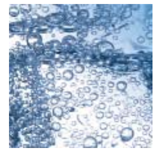
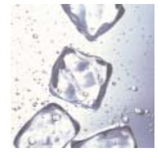
b) Transactions with the Province of Ontario Savings Office

c) Transactions with the Management Board Secretariat

17. 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 salary portion of an individual's compensation includes base salary, overtime payments, vacation/lieu time payouts, incentive and/or lump sum merit payments, and one-time relocation and/or resettlement payments. Listed below - by name, position, salary paid and taxable benefits - are those within OCWA whose salary exceeded $100,000 for the year 2002.

Name	Position	Salary Paid	Benefits
Atkinson, Daniel	V.P., Operations	$143,136.23	$220.28
Baker, Brenda	V.P., Finance & Corporate Services	$110,991.23	$193.52
Booth, Gary	Operations Manager	$107,971.48	$152.60
Bouillon, Gaston	Operations Manager	$103,014.65	$160.56
Brady, Michael	General Counsel	$160,680.08	$339.54
Carter, John	Manager, Project Dev. & Tech. Services	$101,510.61	$206.08
Edwards, David	Operations Manager, Biosolids	$107,503.18	$152.60
Ethier, Marc	Regional Operations Manager	$106,528.82	$178.22
Graham, Clifford	Operations Manager	$110,791.36	$140.99
Griffith, Carl	Chief Executive Officer	$145,580.65	$290.28
Kempenaar, Gary	Regional Operations Manager	$112,490.93	$161.68
Kind, Robin	Assistant General Counsel	$136,860.61	$276.38
Mancini, Toni	Manager, Corporate Planning	$140,492.58	$185.12
Neely, David	Manager, Process Compliance & CDF	$100,483.43	$136.88
Pontone, Dante	V.P., Information Technology	$112,443.23	$223.52
Quarisa, Frank	V.P., Project Dev. & Tech. Services	$102,833.00	$201.37
Reid, Nick	General Manager, South Peel	$120,115.71	$185.12
Sasaki, Lauren	Legal Counsel	$102,129.23	$210.30
Scott, Paul	Chief Executive Officer	$126,284.56	$313.50
Wickson, Louise	V.P., Finance and Admin.	$109,016.39	$223.52
Williams, Gord	Regional Operations Manager	$105,429.59	$156.13


board of directors

Former Chair:
Paul Scott,
President and CEO
Ontario Clean Water Agency
Term: 04/28/01 to 09/18/02

Former Vice-Chair:
Gail L. Beggs,
President and CEO (Acting)
Ontario Clean Water Agency
Term: 11/28/01 to 09/18/02

Chair:
Carl Griffith,
President and CEO
Ontario Clean Water Agency
Term: 09/19/02 to 09/19/04

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

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,
Family and Children's Services
Term: 11/2401 to 11/23/04

Gadi Mayman,
Executive Director
Capital Markets Division
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 02/21/03

Virginia West,
Deputy Minister:
Ministry of Environment
Term: 01/21/03 to 01/20/06

Secretary:
Michael Brady,
General Counsel
Ontario Clean Water Agency



officers of the company

Dan Atkinson
Vice President, Operations

Brenda Baker
Vice President, Finance and Corporate Services

Michael Brady
General Counsel

Linda Chiasson
Vice President, Business Development

Carl Griffith
President and CEO

Dante Pontone
Chief Information Officer

Frank Quarisa
Vice President, Operational Research and Development

Nick Reid
General Manager, South Peel

Sandra Witlarge
Controller (Acting)

Ce rapport a également été publié en français.

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