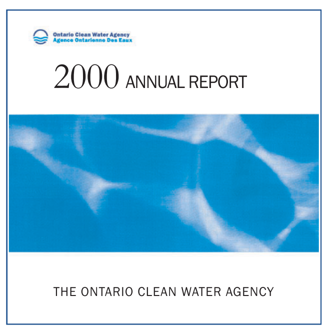
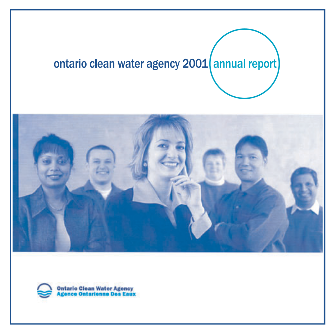
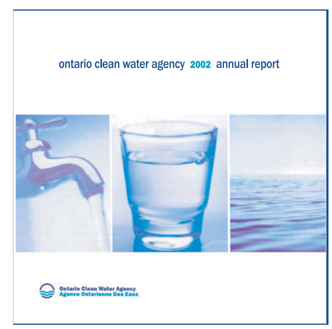
Ontario Clean Water Agency 2003 Annual Report







Marking Ten Years of Reliable Clean Water Services

Ontario Clean Water Agency
Agence Ontarienne Des Eaux

Table of Contents

THE ONTARIO CLEAN WATER AGENCY ANNUAL REPORT FOR THE YEAR 2003

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 in the provision of water and wastewater services in a reliable, cost-effective and environmentally responsible manner.

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.

Ten years since its inception in 1993, OCWA is still a 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 in the Province of Ontario.

OCWA is currently the largest operator of municipal water and wastewater facilities in the Province. The facilities OCWA operates range in size from small wells and pumping stations to large-scale urban water and wastewater systems. The Agency provides operation and maintenance services to approximately 450 water and wastewater systems that represent 37% of Ontario's water facilities and 55% 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. OCWA also 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 demonstrated time and again their commitment to providing safe and reliable clean water services. Over the past ten years, OCWA has developed a reputation of reliability and technical expertise and has remained the operator of choice for hundreds of clients. OCWA will continue to be a leader in the provision of essential water and wastewater services in the Province in the years to come.

Mission and Value Statements

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:

- Operational excellence through continuous improvement, technological innovation and compliant operations that promote the protection of public health and the environment.
- Business excellence by delivering the best value through comprehensive services at a competitive price.
- 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

President's Message

Carl Griffith
President and
Chief Executive Officer

In 2003, OCWA marked its 10th Anniversary as a Provincial Crown Agency. Since its establishment on November 15, 1993, OCWA has earned a reputation for reliability and expertise in the delivery of clean water services.

OCWA employees have established an industry standard over the past ten years by responding to some very high-profile challenges. OCWA maintained service to clients throughout the 1998 ice storm in Eastern Ontario, responded swiftly and decisively to restore the water supply in Walkerton in 2000 and maintained service delivery during the 2003 Ontario-wide power outage. Just as relevant are OCWA's 'quiet' milestones that have marked our progress. Through the delivery of reliable clean water services by our well-trained staff and a commitment to client service, OCWA remained the largest operator of facilities in the Province and a recognized leader in the provision of essential water and wastewater services.

In the past two years, OCWA has responded to substantive legislative and regulatory changes in the water and wastewater industry. OCWA is committed to improving its financial position without compromising operational compliance.

Our current direction is showing positive results. OCWA has hired additional staff to meet more stringent regulatory changes. Facility audit and self-assessment programs were refocused and have assisted Operators to meet new requirements. A training strategy was initiated to assist Operators with grandparented licenses become re-certified through examination. OCWA began the process of renegotiating contracts to address increasing costs, retaining over 90% of its contracts and implementing a successful cost management strategy that is anticipated to deliver the Agency to a position of full cost recovery by the end of 2004.

As we enter our second decade of operation, we can rely on the fact that no other organization understands the fundamentals of providing clean water in Ontario better than OCWA. Our experience, our values and our employees will continue to guide us through this period of evolving opportunity.

Carl Griffith
President and Chief Executive Officer

Management Discussion and Analysis

OPERATIONAL PERFORMANCE

OCWA is committed to improving its financial position without compromising its commitment to regulatory and operational compliance. The Agency is addressing challenges related to the Province's framework for water and wastewater including new legislation, regulation and new administrative structures. The Agency will improve its financial position by establishing strategies to address increased operating costs and declining financing and interest revenues.

The Agency's 2003-2005 Business Plan forecasted a net loss for 2003 of $4.5 million. The loss was anticipated as a result of responsibly allocating the full costs of compliance with regulatory changes and continued investment in strategies that will return long-term benefits by continuing to ensure reliable clean water services. Due to the success of the Agency's efforts to review service delivery, manage spending and renegotiate contracts to recover the full cost of providing compliant operations, the net loss for the period was reduced to $2.1 million. The Agency anticipates it will achieve a state of full cost recovery and return a profit by the end of 2004.

In 2003 OCWA reinforced its commitment to provide its clients with clean water services that were compliant with new and existing regulations. Agency objectives were structured around our long-term priorities of Operational Excellence, Business Excellence and Workforce Excellence.

OPERATIONAL EXCELLENCE

MAINTAINING COMPLIANT OPERATIONS

Maintaining compliant operations in a changing regulatory environment was identified as a prime focus in 2003. In order to meet these new challenges, OCWA developed the Process and Compliance Technician (PCT) position to provide on-site, hands-on compliance support in each of its "Operations Hubs." The strategy included:

- Adjusting the role and responsibilities of the existing Process Technicians, to take on additional compliance duties;
- Intensive training and mentoring of PCTs by OCWA's compliance advisors;
- Establishing strong relationships between Corporate Compliance Advisors, PCTs, and Operators to ensure all hubs were prepared to address changing regulations;
- Launching Facility Assessment Reviews to ensure compliance with regulations; and
- Enhancing the Environmental Management System in anticipation of new regulations.

PCTs received comprehensive training in 2003 and are in place in all of OCWA's Operations Hubs. Ongoing training will be used to ensure OCWA's PCTs continue to be equipped to respond to new regulatory challenges.

SAFE DRINKING WATER ACT, 2002

In the Report of the Walkerton Inquiry, Part Two, Commissioner Dennis O'Connor recommended that the Ontario government ratify an Act to gather all legislation and regulations relating to the treatment and distribution of drinking water in one package.

The *Safe Drinking Water Act, 2002* (SDWA) expanded on existing policies and practices, introducing new features to protect drinking water in Ontario. The *Act's* purpose is to protect human health through the control and regulation of drinking water systems and drinking water testing.

During 2003, the Agency developed a strategy to address the new requirements of the *Act* and regulations that followed. This strategy included:

- Completion of a SDWA Impact Assessment on operational procedures;
- Development of procedures to meet the requirements of the new regulations;
- Hiring additional staff to perform the new regulatory requirements; and
- Communicating to clients the cost implications of the operational procedures associated with the new regulations.

OCWA's response strategy to the *Safe Drinking Water Act, 2002* will be fully implemented by the end of 2004.

REMOTE MONITORING IMPLEMENTATION STRATEGY

The Agency remained committed to implementing its Electronic Operating System, OCWAware™ by December 2005. In 2003 the Agency focused on improving its Outpost5™ Supervisory Control and Data Acquisition (SCADA) system so that the system's full potential could be realized. Quality Assurance/Quality Control (QA/QC) measures were implemented and the OCWAware™ team revisited previous installations to fine-tune the functionality of the process control panels to ensure all of the equipment was in top working condition.

OPERATIONAL EXCELLENCE PERFORMANCE MEASURES

Measure:	Outcome:	Notes:
Full Training of Process Compliance Technicians	Achieved	• Training delivered to all 27 PCT's.
Launch Facility Assessment Program, revised Compliance Audit Program and the enhanced Environmental Management System by the end of 2003.	Achieved	
Complete Facility Assessment at all OCWA operated facilities.	Not achieved	• Completed assessments in 82% of all OCWA facilities.
Complete 30 Compliance Audits at OCWA facilities.	Achieved	• 46 Compliance Audits were completed in 2003.
Complete QA/QC assessment of all installed Outpost5™ equipment by Q2, 2003	In progress	• Initiative re-profiled. QA/QC Program to be completed by 2005.
Commissioning of the Outpost5™ program.	Achieved	• Software Upgraded
100% use of OCWAware™ tools where implemented:		
• Workplace Management Systems	Not Achieved	• 72% of 2003 Work Orders closed by the end of period.
• Process Data Collection	Achieved	• PDC contains data for 100% of OCWA facilities.

MUNICIPAL SERVICES 2003 - REVENUE MANAGEMENT

The 2003-2005 Business Plan focused on revenue generation to meet financial concerns and ensuring an equitable allocation of Agency administrative costs to its clients. The Agency achieved $1.9 million in new business in 2003. The $6.5 million new business target anticipated for the period was not achieved due to several factors. The Agency was unsuccessful in winning two large competitive tenders. Client Service resources focused on existing clients, renegotiating contracts to compensate for cost increases associated with the changing regulatory landscape and addressing outstanding Accounts Receivables.

Although client retention is not within the Agency's control, OCWA's goal was to retain at least 90% of the 127 contracts that would expire in 2003 (including annual rollovers). OCWA retained 92% of the contracts up for renewal in 2003. All of the contract terminations were instances where the municipality decided to resume operations of their own facilities and no longer contract out these services.

COST MANAGEMENT STRATEGY

A multi-year cost management strategy was established in 2003. The strategy targeted $1.5 million in savings annually, to be sustained in 2004 and 2005.

The Agency initiated a comprehensive review of our service delivery model and revised processes to manage costs that did not compromise OCWA's commitment to operational and regulatory compliance. OCWA achieved its target by investigating savings opportunities in a number of areas:

- Realigning access to fleet vehicles;
- Reducing travel and accommodation costs;
- Reducing advertising/promotional activities; and
- Re-profiling the OCWAware™ initiative to focus on enhancing existing installations.

The Agency implemented a plan to recover outstanding costs deriving from the electricity deregulation and the *Safe Drinking Water Act, 2002*. The plan included securing a line of credit to pay interim operational costs. The incremental operational costs related to the new regulations, will be passed on to clients as per OCWA's standard agreements.

CLIENT SATISFACTION SURVEY

OCWA conducted a client satisfaction survey in 2003 to monitor its performance in meeting its commitment to Business Excellence. The results of the survey indicated that 84% of clients rated the Agency's key services as good or excellent. The key services measured were the operation, maintenance and management of water and wastewater treatment facilities and customer service.

BUSINESS EXCELLENCE PERFORMANCE MEASURES

Measure:	Outcome:	Notes:
$6.5 Million in new business	Not achieved	• $1.9 million in new business.
90% Contract Retention	Achieved	• 92% contract retention.
All renewed contracts meet requirements of interim Pricing Policy (approved in 2002).	Achieved	
Annual Savings of $1.5 Million for the Agency	Achieved	
80% of Clients "satisfied" or "very satisfied" with key service	Achieved	• Calculated as average of provision of Water, Wastewater and Customer Service categories.

WORKFORCE EXCELLENCE

OPERATOR RE-CERTIFICATION STRATEGY

OCWA was proactive in designing and delivering a strategy to meet anticipated regulations for operator re-certification. OCWA's strategy assists staff with "grandparented" licenses to become certified through examination. The Province initially awarded grandparented licenses to Operators based on the "Water and Wastewater Utility Operator Certification Program Guidelines" - dated February 9, 1987 - pursuant to the *Ontario Water Resources Act*. Operators who had "demonstrated through past performance, their ability to operate, repair and maintain the utility, meet the experience requirements and have been recommended for certification by the owner or his representative" were granted grandfathered licenses specific to the utility they operated. Proposed regulations under the Safe Drinking Water Act, 2002 will require that grandparented drinking-water system Operators become certified through examination within two years of the regulation coming into force.

Training needs surveys and gap analyses were conducted to develop training plans for all Operators who held grandparented licenses. The Agencys' strategy also included the provision of self-study materials, coordination of certification preparation courses, and ongoing tracking of the number of employees who have re-certified grandparented licenses.

Almost a quarter of the grandparented licenses that are held by OCWA Operators have been re-certified through examination in advance of the establishment of the regulation. OCWA is confident that the Agency will be well prepared to meet an anticipated two-year deadline for operator re-certification once the regulatory standards come into force.

WORKFORCE REVITALIZATION AND RETENTION STRATEGY

Attracting and retaining an experienced, well-trained workforce was identified as an increasing challenge in the 2003-2005 Business Plan due to an aging workforce and increasing competition for trained water and wastewater professionals. OCWA's workforce revitalization strategy was designed to provide encouragement and resources that benefit both the individual and the organization.

OCWA has introduced an employee recognition program, the "OCWAmarine Awards" to staff this year. OCWA also participates in the Ministry of Environment's "Emerald Awards" employee peer recognition program. In 2003, OCWA had two staff members win Emerald Awards.

The Agency demonstrated it is committed to the delivery of youth employment initiatives by establishing partnerships with colleges and universities to enhance and expand OCWA's co-operative education program. The success of the program is evidenced by the increase in co-op students hired this year.

WORKFORCE EXCELLENCE PERFORMANCE MEASURES

Measure:	Outcome:	Notes:
Develop training plan for 153 Grandparented Operators.	Achieved	
Implementation of two year training strategy.	Achieved	
Nominations for first annual awards program by the end of 2003.	Achieved	• "OCWAmarine Awards" were introduced in December, 2003.
Turnover Rate* tracked annually.	Achieved	• 2003 Turnover Rate was 5.57%.*
Co-op number tracked annually.	Achieved	• 62 co-op students hired in 2003.
40 hours training per year, per operator.	Achieved	
All managers to complete Labour Relations course.	In progress	• Labour Relations course was delivered twice in 2003. The course is scheduled to be delivered twice in 2004.

* Turnover rate includes both classified and unclassified employees, but excludes surplus employees and unclassified contract terminations.

OUTLOOK FOR 2004

OCWA is currently working towards meeting the goals established in the Agency's 2004-2006 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:

- **Operational Excellence**: Establishing a leadership role in the water and wastewater management industry through continuous improvement with a focus on operational compliance.
- **Business Excellence**: Taking a customer-focused approach to efficient production and delivery of quality services to clients on a full-cost recovery basis.
- **Workforce Excellence**: Attracting and retaining a prepared and motivated workforce that is trained to respond effectively to changing regulatory and business needs.

OCWA is committed to aligning its strategies with the key priorities of the Province and sees itself as part of the solution to improving the delivery of water and wastewater service in Ontario.

Financial Discussion

For 2003, OCWA experienced a Net Loss of $2.1 million, which represents a $1.3 million improvement compared to 2002 results and $2.4 million improvement compared to plan. Factors contributing to the Agency's financial performance include the successful introduction of a cost management strategy together with improved margins on capital billings that offset continued pressure on operating margins.

Utility operations continue to face pressure resulting from increasing costs related to labour, chemicals, sludge management, insurance and other resource inputs, many of which are rising at rates that exceed current inflation rates. In addition, changes in hydro prices and the status of government rebate programs available to OCWA and its clients had made energy costs difficult to reliably forecast. Where contract terms permit, these cost increases are passed on to OCWA's clients.

Net income from financing has been impacted significantly over recent years due to continued low market interest rates. This trend has been partially mitigated by cash balances that were higher than originally forecast. For 2003, the net income from financing totaled $7.5 million - 4% lower than planned - and a 3% decrease from 2002.

In 2003, OCWA's corporate costs decreased in spite of the fact that corporate services were increased to provide a greater focus on operations and improved service delivery to both internal and external clients. Costs associated with OCWAware™, the Agency's electronic operating system were reduced to $1.7 million through the introduction of more stringent criteria to support new installations.

The Equity of the Province decreased by $4.5 million (from $194.1 million to $189.6 million). Contributed Surplus decreased by $2.4 million as a result of funding repair and maintenance costs inherited from the Ministry of the Environment as well as making an adjustment for an overstatement of receivables transferred to OCWA at its inception. The decrease will continue as other similar expenditures are funded through this account. Retained Earnings decreased by $2.1 million as a result of the Net Loss.

Management'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 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 Committee.

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 auditor's 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, 2003 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, 2003 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, 2004

Jim McCarter, CA
Assistant Provincial Auditor

as at December 31, 2003
(in thousands of dollars)

	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	$9,419	$131,831
Accounts receivable, net		
Municipalities and other customers	25,780	23,559
Ministry of the Environment	291	2,500
Goods and services tax receivable	1,013	1,094
Prepaids	855	497
Current portion of investments receivable:		
Water and Wastewater facilities (note 3)	3,080	1,632
Facilities under construction (note 4)	4,374	2,252
	44,812	163,365
Non-current assets:		
Investments receivable for water and wastewater facilities (note 3)	38,300	43,832
Investments receivable for facilities under construction (note 4)	5,607	1,771
Loans receivable — Top-up loan (note 5)	352	552
Loan receivable — OMEIFA (note 6)	120,000	-
Provincial assistance advances (note 7)	451	2,129
Fixed assets, net (note 8)	6,973	9,043
	171,683	57,327
Total assets	$216,495	$220,692

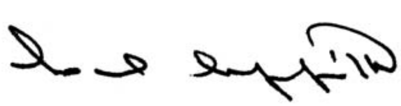
See accompanying notes to the financial statements

as at December 31, 2003
(in thousands of dollars)

	2003	2002
LIABILITY AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$17,692	$17,751
Current portion of employee future benefits (note 11)	1,000	1,000
Deferred Revenue	-	35
	18,692	18,786
Long-term liabilities:		
Municipal contributions payable (note 10)	1,425	1,433
Employee future benefits (note 11)	6,754	6,404
	8,179	7,837
Equity of Ontario:		
Contributed surplus (note 13)	97,951	100,330
Retained earnings	91,673	93,739
	189,624	194,069
Contingencies (note 14)		
Total Liabilities and Equity	$216,495	$220,692

See accompanying notes to the financial statements

On behalf of the Board



Carl Griffith
Director

Virginia West
Director

as at December 31, 2003

(in thousands of dollars)

	2003	2002
UTILITY OPERATIONS REVENUES:		
Utility operations	$99,119	$106,815
Fees	1,920	1,661
Total Operating Revenues	101,039	108,476
OPERATING EXPENSES		
Salaries and benefits (note 11)	44,506	39,428
Other operating expenses	61,003	74,784
Amortization of fixed assets	2,095	1,920
Fixed asset write-off (note 8)	1,198	-
Electronic Operating Systems (note 1c)	1,700	3,347
Total Operating Expenses	110,502	119,479
NET LOSS — UTILITY OPERATIONS	(9,463)	(11,003)
FINANCING REVENUES:		
Revenues from investments and loan receivable	7,292	7,591
Interest of facilities under construction	234	208
Total Financing Revenues	7,526	7,799
FINANCING EXPENSES:		
Interest	30	60
Loan administration expenses	32	32
Amortization of fixed assets	60	60
Total Financing Expenses	122	152
NET INCOME — FINANCING	7,404	7,647
NET LOSS FOR THE YEAR BEFORE PROPERTY TRANSFER INITIATIVE	(2,059)	(3,356)
PROPERTY TRANSFER INITIATIVE (note 15)	(7)	(20)
NET LOSS FOR THE YEAR	(2,066)	(3,376)
Retained earnings, opening balance	93,739	97,115
RETAINED EARNINGS, ENDING BALANCE	$91,673	$93,739

See accompanying notes to the financial statements

as at December 31, 2003
(in thousands of dollars)

	2003	2002
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Net loss	($2,066)	($3,376)
Items not affecting cash:		
Amortization of fixed assets	2,155	1,980
Fixed asset write-off	1,198	-
	1,287	(1,396)
Changes in non-cash operating working capital:		
• Accounts receivable	(2,140)	(2,351)
• Prepaids	(358)	(139)
• Accounts payable and accrued liabilities	(59)	(3,486)
• Ministry of the Environment	2,209	(2,496)
• Deferred Revenue	(35)	35
	(383)	(8,437)
NET CASH FLOWS FROM OPERATING ACTIVITIES	904	(9,833)
FINANCING ACTIVITIES:		
Decrease in investments receivable for water and wastewater facilities	4,084	9,325
(Increase) decrease in investments receivable for facilities under construction	(5,958)	3,715
Decrease (increase) in municipal contributions payable	(8)	713
Increase (decrease) in future employee benefits payable	350	(217)
Decrease in provincial assistance advances receivable	1,678	1,000
Increase in loan receivable — OMEIFA	(120,000)	-
Decrease in loans receivable — Top-up loan	200	84
Changes in contributed surplus	(2,379)	(3,735)
NET CASH FLOWS FROM FINANCING ACTIVITIES	(122,033)	10,885
Fixed assets - acquired	(1,283)	(1,576)
DECREASE IN CASH	(122,412)	(524)
CASH AND CASH EQUIVALENTS, OPENING BALANCE	131,831	132,355
CASH AND CASH EQUIVALENTS, ENDING BALANCE	$9,419	$131,831

See accompanying notes to the financial statements

Notes on 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.

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 are highly liquid investments with original maturities of three months or less when purchased.

(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.

01 SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

(b) Fixed assets: (continued)

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 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 to date 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 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.

03 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.

03 INVESTMENTS RECEIVABLE FOR WATER/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)	
2004	$3,080
2005	3,277
2006	3,487
2007	3,710
2008	3,948
Thereafter	23,878
	41,380
Less: Current portion	3,080
	$38,300

04 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 (2002 - $0.2 million) to investments receivable for facilities under construction.

05 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.

06 LOAN RECEIVABLE — OMEIFA:

On April 15, 2003, the Agency provided a loan of $120 million to the Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA), an agency of the provincial government, in exchange for a promissory note which matures on March 1, 2023. The interest on the note is paid quarterly, with a rate set at four basis points below the average monthly Certificate of Deposit Overnight Rate. The market value of the note approximates cost.

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. The excess of the construction costs over the grants receivable from the Ministry is receivable from municipalities and is classified as a non-current asset.

08 FIXED ASSETS:

(in thousands of dollars)	Cost	Accumulated Amortization	**Net Dec. 31 2003**	Net Dec 31 2002
Furniture and fixtures	$1,752	$1,114	**$638**	$673
Automotive equipment	187	89	**98**	92
Computer hardware	5,933	4,556	**1,377**	1,586
Computer software	3,021	2,490	**531**	490
Leasehold improvements	6,807	2,700	**4,107**	4,538
Machinery and equipment	493	271	**222**	344
Energy Management Equipment	--	--	--	1,103
	$18,193	$11,220	**$6,973**	$8,826
Capital Work in Progress	--	—	–	217
	$18,193	$11,220	**$6,973**	$9,043

During the year, the Agency reviewed the value of its fixed assets, Energy Management Equipment, and determined that due to changes in estimates, the Agency no longer anticipates recovering the book value of this asset. Consequently, the Agency wrote off the book value of the assets on December 31, 2003.

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)	
2004	$1,960
2005	1,767
2006	1,468
2007	1,271
2008	964
Thereafter	254
	$7,684

10 MUNICIPAL CONTRIBUTIONS PAYABLE:

(in thousands of dollars)	**Dec. 31, 2003**	Dec 31, 2002
Municipal contributions held for future repairs	**$1,425**	$1,433

At December 31, 2003, the Agency held funds that will be used for future repairs amounting to $1.4 million (2002 - $1.4 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 legislated severance payments.

The costs of these employee future benefits have been estimated to amount to $7.8 million (2002 - $7.4 million) of which $1.0 million has been classified as current liability. The amount accrued in 2003 was $0.7 million (2002 - $0.6 million) and is included in salaries and benefits expense in the Statement of Income and Retained Earnings.

Included in employee future benefits is an estimated workers compensation obligation in the amount of $1.1 million for the fiscal year ended December 31, 2003. This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board (WSIB) as at December 31, 2002.

The valuation at December 31, 2003 is not expected to be provided by WSIB until after the date of the financial statements preparation. It is management's opinion that the balance at December 31, 2003 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 is 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 $1.9 million (2002 - $1.4 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, 2003**	December 31, 2002
Opening balance, January 1	**$100,330**	$104,065
Adjustments to opening balance	**(2,379)**	(3,735)
	$97,951	$100,330

The adjustments to the opening balance relates to repair and maintenance costs that were agreed to prior to the establishment of the Agency. The funds committed for such 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 $6.0 million has been spent. On other undertakings, a cumulated $3.8 million has been spent. The adjustment also includes a write off of provincial assistance advances.

14 CONTINGENCIES:

Litigation

The Agency is the defendant in a number of lawsuits. Most 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.

Goods and Services Tax (GST)

As a result of a 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 claim was approved in January 2004 and will be recorded when received in fiscal 2004.

Electricity Rebates

Pursuant to certain statutes and agreements related to the governments restructuring of the electricity market, the Agency is entitled to certain rebates related to the price it has incurred for electricity. The amount of the rebates is based on the amount of energy consumed that is subject to the rebate mechanisms. The Agency has distributed a portion of the rebates to customers who are contractually eligible to share in such rebates. The Agency accounts 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 $0.04 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 Ontario Municipal Economic Infrastructure Financing Authority

(c) Transactions with the Management Board Secretariat

17 COMPARATIVE FIGURES:

Prior years figures have been reclassified where necessary to conform to the current year's presentation.

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 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 $100,000.00 for the year 2003.

Name	Position	Remuneration Paid	Taxable Benefits
Atkinson, Daniel	V.P., Operations	$111,379.15	$206.45
Baker, Brenda	V.P., Finance and Corporate Services	$104,986.79	$187.11
Carter, John	Manager, Project Dev. & Tech. Services	$113,537.18	$202.40
Chiasson, Linda	V.P., Business Development	$104,986.79	$187.11
Griffith, Carl	Chief Executive Officer	$148,500.02	$268.23
Kind, Robin	(Acting) General Counsel	$158,259.51	$287.23
Pontone, Dante	V.P., Information Technology	$112,785.31	$207.09
Quarisa, Frank	V.P., Project Dev. & Tech. Services	$105,872.31	$191.31
Rinas, Wilhelm	General Counsel	$104,863.18	$195.78
Sasaki, Lauren	Legal Counsel	$112,242.42	$209.68
West, Phillip A.	Thermal Operator	$107,637.99	$105.00

CORPORATE DIRECTORY

CORPORATE OFFICE
1 Yonge Street, Suite 1700
Toronto, ON, M5E 1E5
General Inquiry: 416.314.5600
Toll Free: 1.800.667.6292
Fax: 416.314.8300
www.ocwa.com

Eastern Region Office
593 Norris Court
Kingston, ON, K7P 2R9
Phone: 613.634.6292
Fax: 613.634.1942

Mid-Ontario Region Office
24 Yonge Street
Elmvale, ON, L0L 1P0
Phone: 705.429.2525
Fax: 705.429.7969

Midwestern Region Office
490 Dutton Drive, Suite B3
Waterloo, ON, N2L 6H7
Phone: 519.885.7022
Fax: 519.885.8192

Northern Region Office
335 Euclid Ave.
Thunder Bay, ON, P7E 6G6
Phone: 807.475.1350
Fax: 807.475.1531

Southwestern Region Office
3508 Wonderland Road South
London, ON, N6L 1A7
Phone: 519.344.7429
Fax: 519.344.4337

South Peel Office
1300 Lakeshore Road East
Mississauga, ON, L5E 1E5
Phone: 905.274.1223
Fax: 905.274.5906

BOARD OF DIRECTORS

Carl Griffith - CHAIR
President and CEO
Ontario Clean Water Agency
(Term: 09/19/02 to 09/18/04)

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

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 and Social Services
(Term: 11/24/97 to 11/23/04)

Gadi Mayman
Executive Director
Ontario Financing Authority
(Term 08/23/00 to 02/24/07)

Jan Rush
Deputy Minister
Ministry of the Environment
(Term: 04/11/01 to 02/21/03)

Virginia West
Deputy Minister
Ministry of the Environment
(Term: 02/21/03 to 02/20/06)

SECRETARY

Robin Kind
General Counsel (Acting)
Ontario Clean Water Agency

OFFICERS OF THE AGENCY

Dan Atkinson
Vice President
Operations

Brenda Baker
Vice President
Finance and Corporate Services

Linda Chiasson
Vice President
Business Development

Carl Griffith
President and
Chief Executive Officer

Robin Kind
General Counsel (Acting)

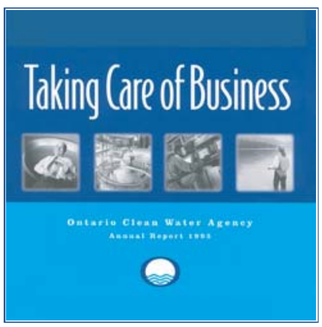
Dante Pontone
Chief Information Officer

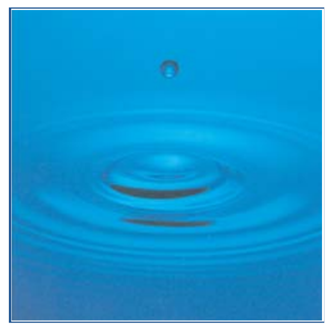
Frank Quarisa
Vice President
Project Development and
Technical Services

Nick Reid
General Manager
South Peel

Sandra Witlarge
Controller

Ce rapport a également été publié en français.





ONTARIO CLEAN WATER AGENCY
www.ocwa.com
1 Yonge Street, Suite 1700, Toronto, Ontario, Canada, M5E 1E5 Tel 416.314.5600 Fax 416.314.8300