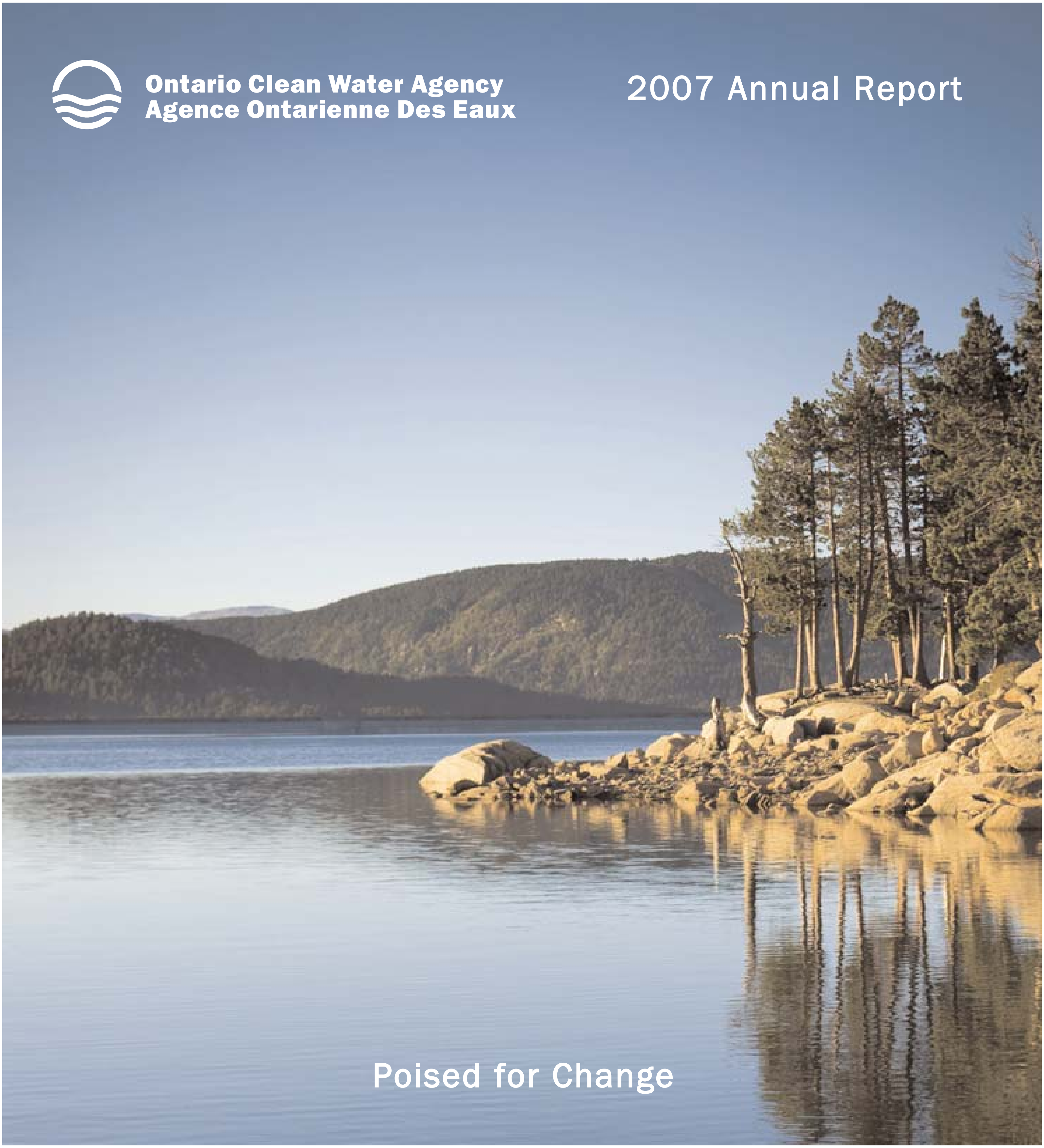
Ontario Clean Water Agency
Agence Ontarienne Des Eaux

2007 Annual Report



Poised for Change

Our Vision

To be the most trusted provider of clean water services.

Our Mission

To demonstrate service excellence to our clients through the delivery of safe, reliable, and cost-effective water and wastewater services.

Our Values

OCWA's values are focused on building TRUST with clients and other stakeholders.

Transparent	Open and honest communication of our business activities.
Respectful	Build sound relationships with our staff, clients, and other stakeholders, by acting responsibly and doing what is right.
Understanding	Confidence in the knowledge and ability of our people to meet the challenges of the water and wastewater industry.
Safe	Deliver clean water services to protect our employees, the communities we serve, and the environment.
Teamwork	Work together and share our collective expertise to deliver exceptional results and achieve our mission.

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Corporate Profile

The Ontario Clean Water Agency (OCWA) provides safe, reliable and cost-effective clean water services to municipalities, First Nations communities, institutions and businesses. OCWA's core business is the operation, maintenance and management (OM&M) of water and wastewater treatment facilities and their associated distribution and collection systems. OCWA also provides a wide range of professional project management, advisory and training services.

Partner of Choice

OCWA operates more municipal water and wastewater facilities in Ontario than any other operating authority. The Agency has contracts to operate over 500 facilities ranging in size from small wells and pumping stations to large-scale urban water and wastewater systems.

Municipal clients include townships, towns, cities, counties and regions as well as cross-jurisdictional boards or area systems where water and wastewater services are shared.

OCWA also serves a number of First Nations communities, and provides operations and maintenance services to commercial, industrial and institutional facilities.

Efficient and Effective Service Delivery

OCWA provides economies of scale that reduce overall operations and maintenance costs for individual clients. Through a hub/satellite service delivery structure, clients benefit from the sharing of management, administration, management systems and specialist support services that many of OCWA's clients might otherwise be challenged to afford.

Delivering Complete Water Service Solutions

Beyond OM&M, OCWA offers a complete range of water and wastewater service solutions. These include:

- Project management of capital work
- Major maintenance and minor capital work
- Services to support new and current regulatory requirements
- Asset management
- Oversight services
- Facility assessments
- Infrastructure financing

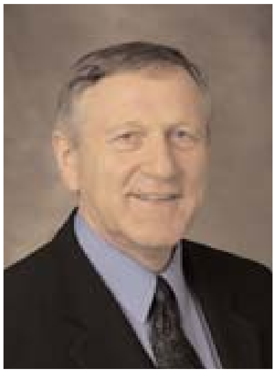
OCWA's services are augmented by industry-specific expertise in the areas of operational compliance, training, procurement, legal services, communications, information technology and systems integration.

Delivering Value to the People of Ontario

Since its inception, OCWA has been a vital resource of the Province of Ontario. OCWA makes public safety and the delivery of safe and reliable water and wastewater services its fundamental objective. By providing system owners a cost-effective choice with respect to the operation of their water and wastewater systems, OCWA helps ensure that all Ontarians have access to a provider of safe and reliable water and wastewater services. This choice is particularly critical for small, rural, and remote communities.

As an Agency of the Province, OCWA is prepared to provide emergency response services in the event of a provincial drinking water emergency, as it did when it assumed operational responsibility for local water operations in response to the Walkerton tragedy in 2000.

Joint Message from the Chair and President & CEO



John Burke
Chair of the Board of Directors

Dante Pontone
President & CEO

OCWA's Annual Report offers us an opportunity to pause and consider the previous year's challenges and changes. Our reflections on 2007 are a mix of success and sadness.

During the summer, an OCWA employee lost his life while carrying out the duties of his job. Our thoughts of sympathy and support remain with his family and friends as they cope with this tragedy. OCWA is an organization committed to the well-being of its employees. This loss touched us deeply. It has been the catalyst for a renewed focus on preventing workplace injuries and establishing the mindset that zero lost-time incidents is an achievable goal.

Although marked by this tragic incident, 2007 included several operational and financial achievements of which we are proud. OCWA improved its environmental compliance record by reducing non-compliance items identified by Ministry of the Environment inspections by 25%.

New business growth targets were exceeded by $3M and capital project planning sales were $13M over plan. This strong business growth, combined with indirect savings, allowed OCWA to meet its target of full cost-recovery in utility operations one year ahead of schedule. When combined with strong returns from our Inherited Financing Revenues of $5.86M, OCWA's Net income was $6.557M for 2007.

Moving forward, OCWA remains on track to realize a modest return on Utility Operations in 2008. OCWA will build on the successful execution of previous Business Plans as we focus on a renewed commitment to health and safety — a responsibility that is shared by all employees. OCWA's Board and management have made eliminating workplace injuries the Agency's highest priority. We are dedicated to promoting employee safety and ensuring that working safely is top of mind in all our business activities from the boardroom table to the job-site. This commitment is reflected in our goal of zero lost-time incidents.

Corporate Governance

The Agency's approach to governance is to conduct its business in a manner that is fair, transparent and accountable to its clients and the government and citizens of Ontario and to continuously improve upon procedures and practices to direct and manage the Agency.

OCWA is an Operational Enterprise Agency of the Province of Ontario established under the *Capital Investment Plan Act, 1993*. The Act sets out OCWA's objects, powers and duties as well as other governing parameters. A Memorandum of Understanding (MOU) further clarifies these roles and duties. OCWA is accountable to the Legislature through the Minister of the Environment.

In 2007, the Agency's governance structure was strengthened through the execution of a new Memorandum of Understanding between the Agency and the Ministry of the Environment and the appointment of independent directors to OCWA's Board, consistent with the recommendations of Mr. Justice O'Connor's report on the Walkerton Inquiry.

Board of Directors

Members of OCWA's Board of Directors are appointed by the Lieutenant-Governor-in-Council. OCWA's Board is made up of senior executives employed with the Ontario Government as well as qualified independent members. The Board has a collective expertise overseeing various levels of government, managing private sector and municipal corporations, including utilities, and advising on regulatory matters related to the environment and drinking water.

OCWA's Board sets the Agency's strategic direction, reviews and monitors performance, ensures sound financial management, and proper reporting.

OCWA's Board has established an Audit and Risk Management Committee to assist the Board in fulfilling its corporate governance and oversight responsibilities with respect to:

- Accounting and financial reporting processes
- Internal financial control structure
- Internal and external audit function
- Enterprise risk management systems

The Board follows best practices in corporate governance including:

- Comprehensive director orientation
- Ongoing director education and development
- Regular in-camera sessions
- Strategic planning sessions with senior management

Business Planning and Performance Measurement

OCWA develops an annual Business Plan that establishes goals over a three-year period. The Board approves the Business Plan and related performance targets annually and reviews achievement of these targets throughout the year. Employee performance appraisals are linked to business plan performance targets.

Accountability

The government and citizens of Ontario hold OCWA accountable in a number of ways, including:

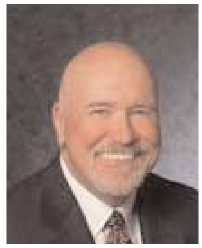
- Reporting requirements for each OCWA-operated facility to clients and the MOE
- Individual facility reports for OCWA-operated municipal water treatment facilities available to the public through OCWA's municipal clients
- An annual report, approved by the Minister of the Environment, tabled in the Provincial Legislature and made available to all Ontarians, either in print or online at www.ocwa.com
- An annual business plan, including performance measures, submitted for approval annually to the Minister of the Environment and every third year to the Ministry of Government and Consumer Services
- Annual audits of OCWA's financial statements, and periodic Value for Money Audits by the Office of the Auditor General of Ontario
- Public access to Agency records under the *Freedom of Information and Protection of Privacy Act*

Board of Directors

John Burke, Chair

Term (as Chair):
February 2005 to May 2008
Term (as Director):
November 2001 to November 2008

John Burke was appointed Deputy Minister of Municipal Affairs and Housing in February 2004. Mr. Burke was formerly the Deputy Minister of Natural Resources and the Chief Administrative Officer for the City of Ottawa; the Regional Municipality of Halton; the City of Dartmouth; the City of Gloucester, and the City of North Bay. He has worked in municipal administration in Grande Prairie, Halifax, and the county of Richmond, Nova Scotia.



Art Leitch, Vice Chair

Term: July 2007 to July 2008

Art Leitch is former Director and President/Chief Executive Officer of the Hamilton Utilities Corporation. Mr. Leitch was previously General Manager of Public Works for the City of Hamilton and Commissioner with the former Hamilton Hydro Commission. He has served as General Manager of Sarnia Hydro, Senior Vice President of United Utilities International PLC and Commissioner of Planning and Public Works in the Region of Halton. Mr. Leitch also serves as Vice Chair of the Board of Directors of the Canadian Automobile Association, Chair of the Advisory Board of the Link-Line Group of Companies and is former Chair of the Board of the Ontario Energy Association. He holds a Professional Directors Designation from the Institute of Corporate Directors, a Master of Environmental Engineering from the University of Toronto and a Master of Business Administration from York University.

Juli Abouchar

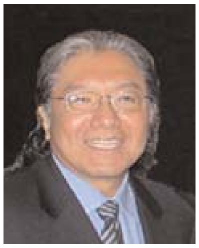
Term: August 2007 to July 2008

Juli Abouchar is Partner and Environmental Specialist with Willms & Shier Environmental Lawyers L.L.P. Ms. Abouchar was Assistant Commission Counsel at the Walkerton Inquiry, served on the multi-stakeholder Source Water Protection Implementation Committee and was legal advisor to the Expert Panel on Regulating Safe Drinking Water on First Nations. She practices administrative law before environment and energy tribunals and has published numerous articles. Ms. Abouchar holds a Master of Laws from the University of London, U.K. and a Bachelor of Laws and a Bachelor of Civil Law from McGill University.

John Bergsma

Term: August 2007 to July 2008

John Bergsma is Commissioner of Corporate Services for the Regional Municipality of Niagara. As well, Mr. Bergsma sits on the Boards of St. Catharines Hydro Inc., Horizon Utilities Corp., CFM Corp and Quartet Services Inc. In the past, he was President and Chief Executive Officer of Union Gas Limited and President of Lennox Canada Inc., Massey Ferguson Research Ltd., and Columbus McKinnon Limited. He has served on the University of Waterloo Board of Governors for more than 20 years, and the Boards of the Stratford Festival of Canada, the Ontario Great Lakes Renewal Foundation, the Canadian Urban Institute and various United Ways across Ontario.



Charles Fox

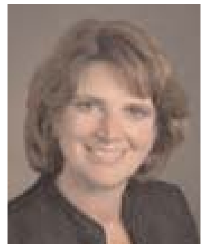
Term: August 2007 to July 2008

Charles Fox is an Ojibway-Cree Anishnawbe from the Bearskin Lake First Nation in Northern Ontario. He has spent the last 29 years of his life working and advocating for First Nations people. Over the past two years, Mr. Fox has been retained by the Ministry of Health Promotion as a consultant on Aboriginal matters dealing with public health. He is currently developing and delivering Aboriginal specific programs in conjunction with the Ontario Power Authority, Conservation Bureau.

Allan Gunn

Term: July 2007 to July 2008

Allan Gunn is the Assistant Deputy Minister of Corporate Services at the Ontario Ministry of Community Safety and Correctional Services. He is responsible for the corporate leadership of strategic and business planning, controllership and human resource management for an organization of over 16,000 staff with an annual budget of $1.8B. Mr. Gunn has been an executive in the Ontario Public Service for over 20 years including 5 years as Assistant Deputy Minister with the Ontario Ministry of Environment. He is an alumnus of Carleton University, Queen's University, and the Richard Ivey School of Business.



Suzanne Herbert

Term: September 2004 to September 2008

Suzanne Herbert was appointed Deputy Minister of Northern Development and Mines in September 2004. Ms. Herbert has had a long career with the public service, spending many years with the Ministry of Community and Social Services, which she joined in 1979. In 1992, she accepted the joint appointment of Assistant Deputy Minister, Operations, at the Ministry of Housing and Chief Executive Officer of the Ontario Housing Corporation. She returned to the Ministry of Community and Social Services in 1994 as Assistant Deputy Minister, Program Management Division and, in 1997, was appointed Deputy Minister. In early 1999, she became the Deputy Minister of Education and led that Ministry until September 2004. Ms. Herbert presently serves on the Advisory Board of the School of Social Policy at Queens University, is the Executive Champion of the Provincial Interministerial Council and the Northern Interministerial Council, and serves on other community and OPS initiatives.

Dante Pontone

President and Chief Executive Office, Ontario Clean Water Agency

Term (as Chair): August 2004 to February 2005

Term (as Director): August 2004 to August 2010

Dante Pontone is President and CEO of the Ontario Clean Water Agency. Mr. Pontone started his career with the Ontario Public Service by joining the Ministry of the Environment in 1985. Mr. Pontone joined OCWA when the Agency was first created and has served in a variety of capacities including Chief Information Officer and interim Vice President of Finance and Corporate Services.
Mr. Pontone also serves as a member of the Board of Directors for the Walkerton Clean Water Centre.

Officers of the Agency

Dante Pontone
President and Chief Executive Officer

Dante Pontone is President and CEO of the Ontario Clean Water Agency. Mr. Pontone started his career with the Ontario Public Service by joining the Ministry of the Environment in 1985. Mr. Pontone joined OCWA when the Agency was first created and has served in a variety of capacities including Chief Information Officer and interim Vice President of Finance and Corporate Services. He also serves as a member of the Board of Directors for the Walkerton Clean Water Centre.

Dan Atkinson
Vice President, Operations – Southern Ontario

Dan Atkinson assumed his current role in Operations in March 2000. He is a designated accountant who has been with the Ontario Public Service for 25 years. Dan joined OCWA at its inception in 1993 as the Corporate Controller and is one of the Agency's original officers.

Brenda Baker
Vice President, Finance and Corporate Services

Brenda Baker joined OCWA in November 2002. She has over 25 years of financial experience in government including positions with the Ministry of Community Safety and Correctional Services, Ministry of Agriculture and Food and Provincial Auditor. Ms. Baker is a Chartered Accountant and holds a Bachelor of Commerce degree and a Masters of Business Administration.

Robin Kind
General Counsel and Corporate Secretary

Robin Kind has been a member of the Agency's Legal group since November 1994. Prior to joining OCWA, Ms. Kind spent a number of years in private practice in Toronto in the areas of corporate, commercial and environmental law. Ms. Kind has held the position of Assistant General Counsel at OCWA since 2000 and was acting General Counsel from May 2003 to May 2005.

Nick Reid
Vice President, Business Development

Nick Reid joined OCWA in February 1995 with 15 years experience in environmental consulting and technical sales. He was instrumental in establishing a client services culture within OCWA and has held progressively responsible positions in Business Development and Operations. Mr. Reid has also served four years as General Manager of the South Peel facilities and two years as Chief Information Officer prior to assuming his current role with Business Development in February 2007. He has been an officer of the company since 2000.

George Terry
Vice President, Operations – Northern Ontario and First Nations Services

George Terry joined OCWA at its inception in 1993. Throughout his OCWA career, he has held successively more senior positions including Operations Manager, Operations Management Specialist, Vice President of Information Technology and Technical Services, Director of Operational Research and Development and Director of Marketing & Sales. He is an active member of the Canadian Water and Wastewater Association and the Ontario Water and Wastewater Works Association.

Sandra Witlarge
Controller, Finance and Corporate Services

Sandra Witlarge joined OCWA in September 2000 as Manager of Budgets and subsequently became Controller in May 2002. Prior to joining OCWA she held various financial positions with a large manufacturing company. Ms. Witlarge is a Certified Management Accountant and a Certified Fraud Examiner and she holds a Bachelor of Administrative Studies degree.

Activities and Accomplishments, 2007

Improving the Client Experience

Engaging Clients

OCWA believes that effective, two-way communication with clients encourages trust, strengthens partnerships and provides an opportunity to expand business relationships. In 2007, OCWA held a total of 10 client forums to provide clients with updates on new and upcoming regulatory changes to the water industry. The forums also engaged clients in dialogue on the services that they require to meet their evolving needs.

Feedback from our clients has resulted in improvements to client invoicing, refinements to client service delivery, and improved functionality of existing Client Connection software.

Growing OCWA's Business and Achieving Full Cost-Recovery

New Business Growth

In 2007, OCWA surpassed its target of $2.0M to achieve $5.2M in new business revenue. This was accomplished through growth in all of OCWA's service sectors—from OM&M services for water and wastewater treatment systems to the provision of professional engineering and specialty technical advisory services. Considerable growth was also realized in the areas of OCWA's asset management services, operational training, and technical support services designed to assist water system owners to meet regulatory requirements.

The most significant growth segment for 2007 was the provision of services to First Nations communities, primarily through the Federally-funded Safe Water Operations Program (SWOP). This program provides mentoring and assistance to First Nations operators from qualified operations staff to build knowledge and operational capacity with respect to water treatment and infrastructure maintenance within their communities.

Fiscal Management and Efficient Service Delivery

To achieve its mission, OCWA is committed to optimizing its processes, tools and technologies. In 2007, OCWA launched a new enterprise financial system and continued to implement changes in its service delivery model to provide service improvements and cost savings. Organizational changes include realignment of OCWA's Operations, Finance & Corporate Services and Business Development service areas. (The realignment was initiated in 2007 as part of the Agency's 2006 revitalization review.)

Such changes help OCWA to grow its business, improve efficiency in providing services, and strengthen the Agency's competitive position in the marketplace. Additions to the core enterprise system, intended to further improve service delivery, and continued implementation of OCWA's revitalization commitments are planned for 2008.

Marketing *Complete Solutions, Clear Value*

In 2007, the Agency incorporated OCWA's new promotional theme Complete Solutions, Clear Value into marketing materials, document templates and conference booths to help raise OCWA's profile and reinforce the Agency's role as a service partner, delivering solutions and value.

Efficient and Compliant Operations

Preparing for Accreditation

The Agency has been preparing to meet the accreditation requirements of the Drinking Water Quality Management Standard (DWQMS) the application of which will be phased in over 18 months, starting January 1, 2009. OCWA will continue to enhance its Quality and Environmental Management System (QEMS) and implement plans to meet the operating authority requirements of the DWQMS. Active support to municipal drinking water clients in 2007 included communications on DWQMS and information on how the Agency can assist clients with meeting other requirements of the new Municipal Drinking Water Licence Program under the *Safe Drinking Water Act, 2002*.

The Agency is well-positioned to meet accreditation requirements and intensive implementation activities are underway to assist the owners of some 170 OCWA-operated municipal water systems to meet their licensing requirements.

10 Years of ISO 14001 Operations

In 2007, OCWA's South Peel Water Treatment System successfully completed an ISO 14001:2004 audit and was re-registered for the international ISO 14001 Standard for environmental management systems.

The South Peel Water Treatment System was the first water treatment system in North America to receive ISO 14001 registration and has been operating under this internationally recognized registration for 10 years. This achievement speaks to the strength of the Agency's Quality & Environmental Management System and to the constant efforts of OCWA's local operations and environmental management teams.

Regulatory Compliance

OCWA has an unwavering commitment to public health and safety. To ensure the Agency meets the Province's regulatory standards and improves on its compliance record, OCWA monitors its performance in the areas of Provincial Officer Orders resulting from MOE inspections, reportable incidents, and number of adverse water quality incidents. OCWA was successful in improving performance in all areas in 2007.

Self-Initiated Facility Audits

A key element of OCWA's Quality & Environmental Management System (QEMS) and Occupational Health and Safety System (OHSS) is OCWA's Self-Initiated Facility Audit program. The purpose of the program is to proactively identify areas of concern and opportunities for improvement at water and wastewater treatment facilities operated and maintained by OCWA, both from a regulatory/compliance and operational efficiency perspective. In 2007, an internal compliance team performed 28 compliance audits — 13 more than the year's target of 15. In addition to compliance audits, self-initiated facility assessment reviews were conducted for every facility OCWA operates.

Occupational Health & Safety

In 2007, an OCWA employee lost his life as a result of a workplace incident. The Ministry of Labour (MOL) issued three orders to OCWA in response to the incident. The Agency immediately responded and has met the requirements of these orders. The incident is still being investigated by the MOL.

In response to this tragedy, the Agency was compelled to review and renew its Occupational Health & Safety System (OHSS) and establish a goal of zero lost-time incidents. Throughout 2007, continuous improvement activities of the Agency's OHSS included:

- Delivery of 11 Confined Space Courses, jointly with the Municipal Health and Safety Association
- Review and improvement of the Agency's Vehicle Safety Program including introducing a mandatory Defensive Driving Course
- Review, enhancement, and reinforcement of policy and procedures related to Lockout/Tagout
- Comprehensive review and training for Operations Management and Process and Compliance Technicians on OCWA's OHSS and the *Occupational Health and Safety Act* (OHSA)
- Completion of all workplace inspections required under OHSA

In 2008, OCWA will renew its Occupational Health & Safety System and actively promote employee safety at every opportunity. Key initiatives include:

- Increased and clear communication of the importance and shared responsibility for workplace health and safety and the goal of zero lost-time incidents
- Renewal of OCWA's OHSS through:
  - Job-task analysis (operations)
  - Education and training
  - Communication and outreach
  - Monitoring and reporting
- Comprehensive Review of OCWA's OHSS Policy

Workplace health and safety is a shared responsibility at all levels of the Agency and OCWA's Board and management remain committed to providing a safe and healthy workplace for all employees. From the Board table to the job-site, our collective goal of zero lost-time incidents will be continuously reinforced.

Enhance OCWA's Industry Profile

OCWA is actively involved in water industry associations, initiatives and events related to ensuring the safety of water in Ontario.

In addition to memberships in the Canadian Water and Wastewater Association (CWWA), Ontario Water and Wastewater Association (OWWA) and Water Environment Association of Ontario (WEAO), the Agency coordinates the work of the Ontario Water Works Research Consortium (OWWRC), which brings University researchers and federal/management provincial government representatives together with municipalities that draw their drinking water from Lake Ontario.

In 2007, OCWA representatives made presentations at several key industry events including the American Water Works Association's (AWWA) Conference and Exposition in Toronto that was attended by thousands of delegates from around the world. Presentation topics included:

- Pay for Certification
- Taste & Odour Research
- Emergency Preparedness
- Quality & Environmental Management Systems
- Operations and Maintenance Planning for an Advanced Treatment System

Empowering Employees to Succeed

OCWA's greatest asset is its people. As with all successful organizations, OCWA is reliant upon the skills, knowledge, and expertise of its employees to deliver high-quality services to meet clients' evolving needs. Successful delivery of safe and reliable water services to our clients requires the skills of knowledgeable and experienced water and wastewater professionals, who are current on new innovations in industry best practices and treatment technologies.

In 2007, OCWA continued to:

- Foster a culture of high quality performance within the Agency
- Invest in its people through programs to develop personal competencies
- Engage staff to contribute to Agency strategic goals
- Attract youth to the field of water and wastewater management

Culture of Performance

As part of the annual business planning process, the Agency establishes key commitments to meet the organization's overall strategies. The Agency's plan, commitments and performance measures are articulated to employees at all levels and are the basis for development of individual performance plans.

OCWA Jets — Mike Paola, Marcel Misuraca, Dennis Rau and Al Robdrup with coach Bev Mollard (centre) receive their award at the WEAO Operations Challenge

Taking the Challenge

Each year, the Water Environment Association of Ontario (WEAO) holds an "Operations Challenge" in conjunction with its annual conference. The Operations Challenge tests the skills of operators/technicians in responding to situations involving collection systems, laboratory, process control, maintenance and safety. Each event is designed to test the diverse skills required for facility operations and maintenance and the teams are judged on their precision, speed and safety in completing each task.

In 2007, OCWA's team placed second overall at the WEAO event and was invited to compete at the Water Environment Federation's Annual Technical Exhibition and Conference (WEFTEC).

OCWA Jets — Mike Paola, Marcel Misuraca, Dennis Rau and Al Robdrup in competition at WEFTEC

Fostering Excellence & Innovation

The OCWAmarine Awards are designed to publicly recognize the contributions that individual employees and groups of employees make to the Agency each year.

Each year, Agency staff are invited to nominate their peers for an OCWAmarine Award in recognition of exceptional contributions or achievements to meet the needs of clients and the Agency. In 2007, 10 individuals and 2 teams were selected as Award recipients.

Two of the achievements included:

Roger Mellow (left) is presented an OCWAmarine Award by Dan Atkinson (centre) and Dante Pontone (right)

- A solid-coloured plastic tube was replaced with a clear one to help operators accurately monitor sludge removal from a process tank to a sludge haulage truck. This simple yet effective modification has helped to ensure biological processes are not adversely affected by over/under removal of sludge liquid. The equipment provider will be building this innovative idea into future plans.

Award recipients (left to right): Dan Sprague, Nicole Bradley, Jay Verstraeten, Elvino Azevedo, Melissa Rebidoux, Dan Atkinson (presenter), Gary Dunmore, Tim Sunderland

- Through the collaborative efforts of OCWA's local staff, municipal engineers and the MOE; wastewater from the Union Water System's backwash cycles are being reused as irrigation at a golf and country club. Not only does this effluent diversion program keep the course lush and green, it also reduces the demand on the water supply during the peak summer season.

The Agency uses a balanced scorecard approach and a results-based business planning process to monitor key performance indicators as well as achievement of business plan initiatives. A cross-divisional team meets quarterly to review the status of key business indicators and makes recommendations to senior management on opportunities to improve performance. The Senior Management Committee and the Board of Directors monitor progress through a quarterly report on plan priorities and status of performance measures along with discussions on specific issues and accomplishments.

Engaging Employees

In response to the results of employee surveys conducted in 2006 by OCWA and the Ontario Public Service, the Agency has developed initiatives to further enhance both workplace satisfaction and organizational pride.

In 2007, a team of employee and management representatives from across the organization collaborated to develop an updated set of Corporate Values that complement the Agency's newly streamlined Vision and Mission statements (featured on the inside cover of this report). As Value Ambassadors, team members held sessions with their co-workers to get feedback on the updated Vision, Mission and Values and discuss ways to ensure OCWA's Values are embraced by all employees.

The theme of Trust arose from three independent sessions held by OCWA staff across the organization and was selected by the Values Ambassadors for consideration by Senior Management and OCWA's Board of Directors where it was enthusiastically approved.

In 2007, members of OCWA's senior management attended local area staff meetings to engage employees in discussing OCWA's challenges and achievements and to foster employee input in the development of new strategies.

Leadership Development

OCWA recognizes the need to attract, develop and retain people with the aptitude and abilities to meet current and future organizational needs. In 2007, the Agency continued delivery of its leadership development program, designed by OCWA and the York-Schulich School of Business, to expand the core competencies of OCWA's management. In addition, the Agency launched a Succession Management Program to develop and nurture the skills of employees identified as having the potential to pursue the key position of operations manager. This program will assist OCWA in better meeting clients' evolving needs and remaining a successful organization.

Delivering Value to the Province

Supporting the Water and Wastewater needs of First Nations Communities

In 2007, the number of First Nations communities contracting services from OCWA increased significantly. As part of the federally-funded SWOP program, OCWA has been contracted to provide oversight services to mentor, assist, and train First Nations operators on the operation and maintenance of their water treatment systems. The ultimate goal of this program is to build knowledge and operational capacity within the communities. In addition, OCWA has provided operational training courses for First Nations operators.

Prepared to Respond to Water-Related Provincial Emergencies

Through a funded partnership with the Ministry of the Environment, OCWA provides emergency response services in the event of a drinking water emergency. To ensure preparedness, the Agency has established five Emergency Response Teams that can be rapidly deployed to an emergency situation at a water facility in the province. OCWA's Emergency Response Teams are specially equipped, trained, and tested to ensure an efficient response to emergency situations.

Enhanced Agency Governance

The Agency's governance practices are based on transparency and accountability. In 2007, the Agency's governance structure was strengthened through the execution of a new Memorandum of Understanding between the Agency and the Ministry of the Environment and the appointment of five new Board members, four of whom were from outside the Ontario Public Service. The addition of new independent and qualified directors to OCWA's Board is reflective of Mr. Justice O'Connor's recommendation #50.

OCWA's Board members were selected based on a skills profile and position description representing a cross-section of expertise relative to OCWA's business. New Board members attended an orientation session providing them with foundational information on OCWA's management framework, business relationships, finances and water industry regulatory requirements.

OCWA Emergency Response for the Pikangikum First Nation Community

In June 2007, Pikangikum First Nation community school was destroyed by fire. The fire also destroyed a watermain which resulted in the loss of water pressure throughout the community. OCWA was contacted to provide assistance to this fly-in community in Northwestern Ontario and an emergency response team worked for five days to repair the break. Many other repairs were also made to the system.

The commitment, professionalism, and expertise of OCWA's team (Richard Junkin, Philip Owens, and Gary Freeland) was appreciated by this community and recognized by Indian and Northern Affairs Canada (INAC).

Emergency Services Volunteers Recognized

For many OCWA employees, serving the needs of their communities goes beyond the provision of safe and reliable water services. OCWA is proud of the contributions staff make to their communities — from fundraising, coaching and mentoring to emergency medical services and firefighting. In 2007, two such employees were recognized by their communities for their long-term volunteerism and dedication:

Gene Ross, Senior Operator, was honoured for 32-years of Ambulance Service in Schreiber. Gene also served as a volunteer firefighter for 32 years, serving as Fire Chief for the last two years.

David Nussey, Operations Manager, was recognized by the Town of Lakeshore for his more than 30 years of volunteer service on the Lakeshore Fire Department. Dave currently holds the rank of District Fire Chief.

Summary of Performance for 2007 Activities

Measure:	Outcome: Achieved	Outcome: On Track	Outcome: Reprofiled
Improving the Client Experience			
• Increase communication with clients by holding four client information forums which are rated positively by attendees	✓		
• Successfully implement action plan to address the top 3 areas for service improvement identified in the annual client satisfaction survey		✓	
• Client retention strategy successfully implemented such that at least 80% of clients renew their contracts with OCWA		✓	
Growing OCWA's Business and Achieving Full Cost-Recovery			
• Achieve $2M in new business and new contract margin greater than margin lost from expiring contracts	✓		
• Growth in the number of capital project/planning sales made as compared to 2006	✓		
• "Revitalization Plan" implemented according to Plan timelines		✓	
• Core functionality of new enterprise resource planning system implemented according to plan	✓		
• Reduced number of underperforming contracts		✓	
• Reduction in the number of hours required by OCWA legal services to review and approve contracts as compared to 2006[1]			✓
• Complete fleet utilization study and implement recommendations	✓		
Efficient and Compliant Operations			
• Update OCWA operational processes and procedures to meet DWQMS requirements	✓		
• Prepare strategy for implementation of DWQMS in each facility and client communications implemented as per plan	✓		
• Reduce the number of non-compliance items identified by MOE inspections of OCWA-operated facilities	✓		
• Complete facility assessments for all OCWA-operated facilities	✓		
• All licensed staff meet the legislated training requirements to maintain their licensing	✓		
• Update OCWA visual identity standards to encompass *Complete Solutions, Clear Value* slogan[2]			✓
• Participate in industry events: prepare and present accepted AWWA presentation submissions and submit/present topics for two additional conferences	✓		
Empowering Employees to Succeed			
• Communicate OCWA Business Plan commitments to employees	✓		
• Improve Performance Plan and Review (PPR) process as demonstrated by PPRs being completed for all OCWA employees	✓		
• Implement action plan to respond to 2006 employee satisfaction survey results and conduct topic-focused employee survey to demonstrate stable or improved level of employee satisfaction as compared to 2006 results[3]			✓
• Engage staff at the local level by having President & CEO or an SMC member attend 8 Hub staff meetings	✓		
• Implement OCWA Succession Management Program implemented according to plan		✓	
• Continued implementation of Leadership Development Program		✓	
Delivering Value to the Province			
• Meet 2007 revenue targets for First Nations business	✓		
• Deliver First Nations Scholarship Program	✓		
• Conduct annual test of Emergency Response capabilities	✓		
• Hold orientation session for new board members	✓		
• Hold one training session for all Board members on stewardship best practices[4]			✓

1 Although initiatives to streamline the review and approval of contracts were completed, no reduction occurred due to increase in new service contracts.

2 Initiative completed. Performance measure to quantify effectiveness removed as a result of in-year changes to survey methodology.

3 Due to requirement to deliver an additional OPS-wide survey, no topic focused surveys were conducted. Agency achieved modified commitment to respond to joint survey results including an action plan.

4 Planned Board training deferred. Newly-constituted Board currently assessing its training needs.

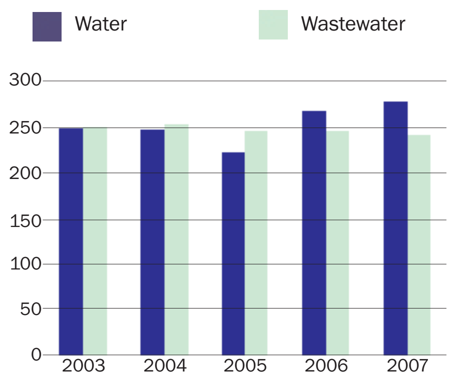
Performance by the Numbers

Business Performance

Business Growth

Operations, Maintenance & Management

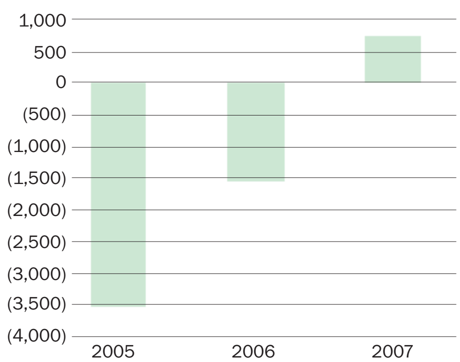
# of Facilities



Net Income

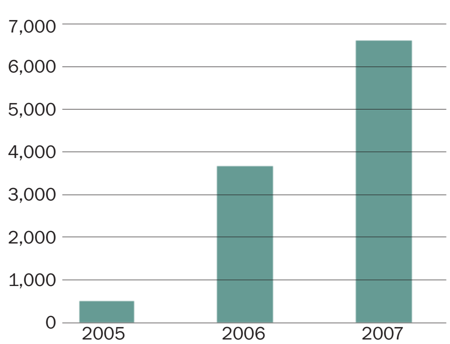
OCWA Business Stream

(in thousands of dollars)



Total Net Income

(in thousands of dollars)



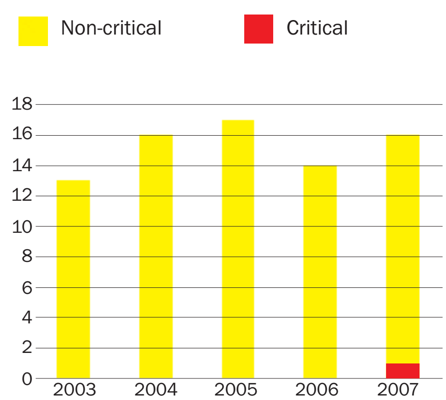
Compliance Performance

Provincial Officer Orders

as a result of MOE Inspection

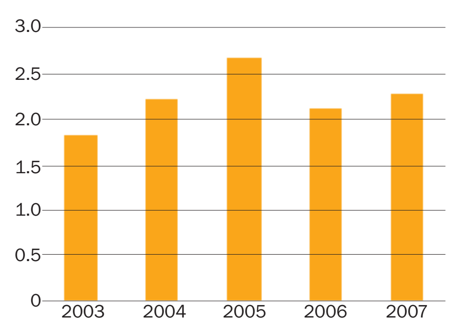
of OCWA-operated facilities

Approved Lost Time Incidents



Injury Frequency Rate

$$\# = \frac{\text{Number of compensable accidents} \times 200{,}000}{\text{Number of hours worked}}$$



2008 and Beyond

Moving forward in 2008 and beyond, OCWA will continue to achieve full cost-recovery on the Agency's business activities and develop new business opportunities to sustain continued growth. With a renewed commitment to Occupational Health & Safety OCWA will work towards a goal of zero lost-time incidents. The Agency's key initiatives for 2008 are set out below:

Occupational Health & Safety

In 2008, we will review our approach to occupational health and safety to ensure our goal of preventing health and safety incidents in the workplace is met. We will achieve this goal by:

- Ensuring OCWA's structure is adequate to promote awareness and action
- Conducting work assessments for key operational positions
- Providing additional training to health and safety representatives

Client Service Delivery

OCWA will remain responsive to the changing needs of our clients by holding Client Information Forums and establishing Client Advisory Councils to provide education on industry regulations and to obtain knowledgeable feedback on potential new service offerings. In addition, we will continue to stay abreast of industry changes and be a visible participant in industry events.

Business Growth

Building on momentum realized in 2007, we will continue to grow our core municipal services and seek to expand our market share in the following areas:

- First Nations
- Industrial/Commercial
- Engineering Services
- Operational Training
- Technical Consulting Services
- Asset Management & Operational Systems Support

Financial Performance

We will continue to improve our financial performance through new business growth and by implementing organizational and system efficiencies to improve service delivery. This includes implementing client relationship management systems and business intelligence systems.

Staying Compliant

Accreditation requirements for operating authorities (including OCWA) under the DWQMS and licensing of municipal drinking water systems will begin in 2009. Foundational work has been completed to ensure the Agency and OCWA-operated facilities are prepared to meet accreditation requirements.

Implementation activities, including comprehensive training and the roll-out of an operational plan template will commence in 2008.

Developing OCWA Employees

In 2008, OCWA will continue to invest in its greatest asset — its people. Employees enhance their professional skills through performance plans which identify their learning goals. OCWA supports those individual plans and will also continue to support programs such as operational training, succession management, and leadership development.

Enhancing Agency Governance

In 2008, OCWA will implement a Code of Business Conduct as part of its commitment to strengthening the Agency's governance structure. Applicable to OCWA's Board members, management, and employees, the Code will provide decision-making guidance that is reflective of the Agency's values.

OCWA's Board also plans to present a business case to the Ministry of the Environment for the modification of the Agency's governance strucuture to better serve the needs of OCWA clients and the Province of Ontario.

Management’s Responsibility for Financial Information

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 Environment for approval.

The Auditor General has examined the financial statements. The Auditor General’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.

Dante Pontone
President and Chief Executive Officer

Brenda Baker
Vice President, Finance and Corporate Services

Financial Discussion

Exceeding Our Targets

The Agency continues to build upon the financial gains of the last few years and is once again reporting financial results that exceed our expectations. OCWA exceeded its 2007 financial targets so successfully that it has also already met the target originally established for the 2008 fiscal year.

In 2005, the Agency set a target of full cost-recovery in utility operations independent of our Inherited Financing Revenue. To accomplish this goal, OCWA introduced a number of multi-year initiatives including:

- Restructuring and streamlining administrative functions across the Agency
- Identifying new revenue streams
- Transitioning of functions such as training into profit centres
- Implementing an integrated financial system to improve internal and external reporting and to better track and bill extra services

The results of these initiatives supported Agency operations, expanded service offerings, and grew our business.

Under this multi-year cost-recovery plan, the key measure is Net Income excluding the Inherited Financing Revenue. Although the plan anticipated that breakeven on this key measure would be reached by end of 2008, this milestone was actually achieved in 2007. Furthermore, OCWA's 2007 OCWA Business Stream (OBS) Net Income (see Investment Income section for details) results exceeded the 2008 plan by $700,000.

Balance Sheet

The Agency continues to have a very strong Balance Sheet position with total assets of $208.5M — an increase of 4.6% from 2006. The cash position has increased by 33% from $34.6M at the end of 2006 to $46.2M at the end of 2007. With respect to equity, the 2007 Net Income of $6.6M has resulted in an increase to Retained Earnings of 8.9% and an increase in Total Equity of 3.9%.

The Agency remains free of long term debt.

Revenues

Operating and Capital Revenues from OCWA's core operations business grew by $9.5M or 8.4% over 2006 results. This represents the largest year-over-year increase since the Agency was established in 1993. This growth relates to a combination of CPI adjustments that are built into agreements, new business, and increased revenues for capital and miscellaneous services. The increase in capital and miscellaneous services partly resulted from the Agency's new financial system that has brought new discipline to tracking and billing services outside the scope of our operating agreements.

Expenses

For the most part, the year-over-year increase in expenses was fairly close to the CPI adjustment amounts that are incorporated into OCWA's contracts. However, there were a number of exceptions where price increases exceeded the average CPI. The cost of chemicals increased by an average of 6.35% overall, with the most significant increase being for chlorine which rose in price by more than 35%. Market price increases for hydro and other energies also exceeded CPI. The Agency mitigated the impact of these energy increases through price caps and exclusions in contracts as well as through a favourable multi-year contract for natural gas.

Investment Income

OCWA's investment portfolio continues to perform well. The investment portfolio is made up of cash, short-term investments, and a portfolio of loans with varying loan maturities. Most of the loan portfolio was inherited from the government when OCWA was established.

Higher-than-forecast interest rates during 2007 combined with higher bank and investment balances (due to strong results from operations for the year) resulted in total investment income of $7.925M, or 16% more than planned. Of this total, $5.9M represents interest on our inherited portfolio. Although this amount is included in our total Net Income reported, it is excluded from what is referred to as "OCWA Business Stream (OBS) Net Income." OBS Net Income refers to income from Utility Operations and only the investment income derived from OCWA's business activities.

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, 2007 and the statements of income and retained earnings and 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 Canadian 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
March 26, 2008

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Balance Sheet — Assets

As at December 31, 2007

(in thousands of dollars)	2007	2006 (as restated — note 15)
Current assets:		
Cash and short-term investments	46,178	34,617
Accounts receivable, net		
Municipalities and other customers	23,848	22,318
Ministry of the Environment	380	60
Goods and services tax receivable	1,429	982
Prepaid Expenses	3,153	3,390
Current portion of investments receivable:		
Water and wastewater facilities (note 2)	1,232	2,683
Facilities under construction (note 3)	164	1,241
Note receivable (note 5)	203	211
	76,587	65,502
Non-current assets		
Investments receivable for water and wastewater facilities (note 2 and note 15a)	7,356	9,127
Loan receivable - Infrastructure Ontario (note 4)	120,000	120,000
Fixed assets, net (note 6)	4,542	4,662
	131,898	133,789
Total Assets	208,485	199,291

See accompanying notes to financial statements

On behalf of the Board

John Burke
Director

John Bergsma
Director

Balance Sheet — Liabilities and Equity

As at December 31, 2007

(in thousands of dollars)	2007	2006 (as restated — note 15)
Current liabilities:		
Accounts payable and accrued liabilities	18,634	16,248
Current portion of employee future benefits (note 9)	2,848	2,714
Provision for restructuring costs	0	172
	21,482	19,134
Long-term liabilities:		
Municipal contributions payable (note 8)	252	271
Employee future benefits (note 9)	8,244	8,061
	8,496	8,332
Equity of Ontario:		
Contributed surplus (note 11)	95,820	95,872
Retained earnings (note 15)	82,687	75,953
	178,507	171,825
Contingencies (note 12)		
Total Liabilities and Equity	208,485	199,291

See accompanying notes to financial statements

Statement of Income and Retained Earnings

For the Year Ended December 31, 2007

(in thousands of dollars)	2007	2006 (as restated — note 15)
Utility Operations Revenues:		
Utility operations	119,987	110,098
Fees	2,314	2,710
Total Operating Revenues	122,301	112,808
Operating Expenses:		
Salaries and benefits (note 9 and note 10)	50,948	49,426
Other operating expenses	70,956	65,518
Amortization of fixed assets	1,650	1,673
Total Operating Expenses	123,554	116,617
Net Loss - Utility Operations	(1,253)	(3,809)
Financing Revenues:		
Interest from investments, loans receivable and facilities under construction	8,017	7,115
Total Financing Revenues	8,017	7,115
Financing Expenses:		
Interest	12	30
Loan administration expenses	80	32
Amortization of fixed assets	60	60
Total Financing Expenses	152	122
Net Income - Financing	7,865	6,993
Net Income for the Year Before Property Transfer Initiative	6,612	3,184
Property Transfer Initiative (note 13)	(55)	(50)
Net Income for the Year	6,557	3,134
Retained earnings, opening balance	75,953	72,819
Adjustment for new standards on financial instruments (note 15a)	177	0
Revised retained earnings, opening balance	76,130	72,819
Retained earnings, ending balance	82,687	75,953

See accompanying notes to financial statements

Statement of Cash Flows

For the Year Ended December 31, 2007

(in thousands of dollars)	2007	2006 (as restated — note 15)
Cash provided by (used for)		
Operating activities:		
Net Income	6,557	3,134
Items not affecting cash:		
- Amortization of fixed assets	1,710	1,733
	8,267	4,867
Changes in non-cash operating working capital		
- Accounts receivable	(2,297)	(1,615)
- Prepaid Expenses	237	(265)
- Accounts payable and accrued liabilities	2,386	(4,101)
- Provision for restructuring costs	(172)	(89)
	154	(6,070)
Net cash flows from operating activities	8,421	(1,203)
Financing Activities:		
Decrease in investments receivable for water and wastewater facilities	3,399	2,362
Decrease in investments receivable for facilities under construction	1,077	2,056
Decrease in municipal contributions payable	(19)	(837)
Increase in future employee benefits payable	317	974
Decrease (increase) in note receivable	8	(211)
Changes in contributed surplus	(52)	(255)
Net cash flows from financing activities	4,730	4,089
Fixed assets - acquired	(1,590)	(1,329)
Increase in Cash	11,561	1,557
Cash and Short-Term Investments, Opening Balance	34,617	33,060
Cash and Short-Term Investments, Ending Balance	46,178	34,617

See accompanying notes to 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 to protect human health and the environment, encouraging conservation of water resources and supporting Provincial policies for land use and settlement.

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 that are of significance to the Agency.

(a) Cash and Short-term Investments

Cash and short-term investments are highly liquid investments with original maturities of three months or less when purchased.

(b) Fixed Assets

During fiscal 2007 the Agency changed its method of amortizing fixed assets from that of a declining balance, to straight line basis in order to better reflect the useful economic life of the Agency's assets. Major capital expenditures with a future useful life beyond the current year are capitalized at cost. Fixed assets are being amortized as follows:

Automotive equipment	4 years
Furniture and fixtures	5 years
Computer hardware	3 years
Computer software	2 years
Machinery and equipment	5 years
Financial information system	7 years
Leasehold improvements	Life of the lease

(c) Revenue Recognition

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.

(d) Financial Instruments

On January 1, 2007, the Agency adopted the new CICA standards pertaining to financial instruments. These standards provide accounting guidelines for recognition and measurement of financial assets and liabilities. All financial instruments are classified into one of the following five categories: held-for-trading, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification. At the Agency, the following classifications have been made:

- Cash and short-term investments and notes receivable are classified as held for trading and recorded at fair market value, and changes in value during the period are recorded in net income.
- Accounts Receivable and Facilities Under Construction are classified as loans and receivables, and are valued at face value because they are due within one year.
- Investments Receivable for water and wastewater facilities are classified as loans and receivables, are initially measured at fair market value and subsequently valued at amortized cost using the straight line amortization method. Amortization is charged to the Statement of Income and Retained Earnings.
- The Loan Receivable from Infrastructure Ontario is classified as an available-for-sale financial asset and is valued at face value, which is essentially the same as fair market value because of the nature of variable-rate financial instruments.
- Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at face value because they are due within a year.

(e) 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. 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, they include capitalized interest on certain facilities that will be collected from clients during future years.

(b) The investments receivable are supported by agreements that bear interest at rates between 5.32% and 10.52%. Scheduled principal repayments of the investments are as follows:

(12 Months Beginning January)	(in thousands of dollars)
2008	1,232
2009	1,101
2010	767
2011	786
2012	813
Thereafter	3,759
	8,458
Less: Current portion	1,232
	7,226
Adjustment to Amortized Cost (Note 15a)	130
	7,356

3. Facilities Under Construction

Facilities under construction represent water and wastewater facilities or major capital improvements to existing facilities that have been undertaken by the Agency on behalf of its clients.

4. Loan Receivable — Infrastructure Ontario

The Agency has a loan of $120 million with Infrastructure Ontario, an agency of the provincial government, 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 Canadian Dollar Offered Rate. The market value of the note approximates cost.

5. Note Receivable — Stelco Inc.

The Agency received a Secured Floating Rate Note from Stelco Inc. as part of the consideration for services provided by the Agency. The note has a face value of US$183,000 and a maturity date of March 31, 2016.

6. Fixed Assets

(in thousands of dollars)	Cost	Accumulated Amortization	**December 31, 2007**	December 31, 2006
Furniture and fixtures	1,762	1,479	**283**	371
Automotive equipment	167	145	**22**	35
Computer hardware	7,761	6,586	**1,175**	1,360
Computer software	4,124	3,682	**442**	928
Machinery and equipment	571	424	**147**	169
Financial information system	1,397	95	**1,302**	0
Leasehold improvements	6,694	5,523	**1,171**	1,799
	22,476	17,934	**4,542**	4,662

7. 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)	
2008	2,069
2009	1,271
2010	764
2011	464
2012	233
Thereafter	9
	4,810

8. Municipal Contributions Payable

At December 31, 2007, the Agency held funds on behalf of the municipalities amounting to $0.3 million (2006 — $0.3 million). These funds are included in cash and short-term investments.

9. Non-Pension Employee Future Benefits

The Agency is responsible for its accrued legislated severance, unpaid vacation, and workers compensation obligations.

The costs of these employee future benefits have been estimated at $11.1 million (2006 — $10.8 million, as restated) of which $2.8 million has been classified as current liability. The amount accrued in 2007 was $1.4 million (2006 — $1.9 million, as restated) 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 $1.6 million (2006 — $1.7 million). 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, 2006.

It is management's opinion that the balance at December 31, 2007 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 other post-retirement, non-pension employee benefits is paid by the Ministry of Government and Consumer Services and therefore is not included in the financial statements.

10. 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) that are both multiemployer defined benefit pension plans 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 $2.3 million (2006 — $2.3 million) and is included in salaries and benefits in the Statement of Income and Retained Earnings.

11. Contributed Surplus

When the Agency was first established, 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.

The adjustments to the opening balance relate to repairs and maintenance, legal costs and the write off of provincial assistance advances that were agreed to prior to the establishment of the Agency. The funds committed for such repairs 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 $5.6 million has been spent.

(in thousands of dollars)	**December 31, 2007**	December 31, 2006
Opening balance, January 1	**95,872**	96,127
Adjustments to opening balance	**(52)**	(255)
	95,820	95,872

12. Contingencies

(a) 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 $5,000 to $100,000, depending on when the event giving rise to 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. The Agency's insurers have denied coverage with respect to several related multi-million dollar lawsuits in which the Agency has been named as a defendant by the same plaintiff. These lawsuits are currently being held in abeyance and it is believed that the Agency's exposure is significantly less than the amounts claimed, although the exact amount of the Agency's exposure cannot be determined at this time. In the event the litigation proceeds, the Agency's exposure will need to be re-evaluated periodically.

(b) Investments Receivable for Water and Wastewater Facilities

In August of 1999, the Agency entered into a loan agreement to finance the construction of a water pipeline, which was completed in May 2000. The outstanding loan balance including accumulated interest was $18.6 million at December 31, 2005. The loan agreement specified that repayment would be through sales of water, rather than according to a predetermined schedule. As of December 31, 2007, no principal or interest payments have been made. Currently, the pipeline and the payments of the outstanding loan is the subject of ongoing discussions amongst various levels of government. Given the significant uncertainty regarding future water sales, in December 2005, the Agency provided for this loan in the full amount of $18.6 million. Beginning January 1, 2006, the Agency stopped recognizing interest on the loan and will recognize that interest revenue when payment is received. At December 31, 2007, the outstanding loan balance including accumulated interest is $21.3 million.

13. 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. During 2007, $0.055 million (2006 — $0.050 million) was spent on this initiative. The transfers have been substantially completed and $4.7 million has been spent.

14. 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) The Agency received revenue of $2.3 million (2006 — $0.7 million) from the Ontario Realty Corporation for water and wastewater treatment services OCWA provided. The services were provided at competitive rates similar to those of other OCWA clients.

(b) The Agency received revenue of $1.9 million (2006 — $2.3 million) from the Ministry of the Environment for water and wastewater treatment services OCWA provided. The services were provided at competitive rates similar to those of other OCWA clients.

(c) The Agency provided a $120 million loan to Infrastructure Ontario, as described in note 4.

(d) The Agency relies on the Ministry of Government and Consumer Services to process its payroll and administer its benefits. The Ministry of Government and Consumer Services absorbs some of these administrative costs.

15. Changes in Accounting Policy

There were two changes in accounting policies implemented during 2007, as follows:

(a) A new accounting standard regarding financial instruments became effective at the Agency commencing in 2007. The standard requires all financial instruments to be included on the balance sheet, and measured at fair market value or, in certain circumstances when fair market value may not be considered the most relevant, at cost or amortized cost.

Any changes to the fair value of assets and liabilities prior to January 1, 2007 were recognized by adjusting opening retained earnings. Opening retained earnings was increased $0.2 million to reflect the corresponding increase in the investments receivable for water and wastewater facilities valued at its amortized cost value. This amount will be amortized to expense over the term of the loan (2007 — $0.047 million).

(b) Effective January 1, 2007, the Agency retroactively adopted a policy whereby the costs of any unused vacation entitlements earned by employees would be recognized when earned by eligible employees. The following table summarizes the effect of the change in accounting on the financial statements as at December 31, 2006.

	Restated Amount	Previously Reported	Increase/ (Decrease)
Balance Sheet Effect			
Employee Future Benefits – Current	2,714	1,000	1,714
Employee Future Benefits – Long Term	8,061	7,014	1,047
Retained Earnings	75,953	78,714	(2,761)
Income and Retained Earnings Effect			
Operating Expenses-Salaries and Benefits	49,426	48,929	497
Net Income for the Year	3,134	3,631	(497)
Retained Earnings-January 1, 2006	72,819	75,083	(2,264)

16. 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, and incentive and/or lump sum merit payments. Listed below — by name, position, salary paid and taxable benefits — are those within OCWA whose salary exceeded $100,000 for the year 2007.

Name	Position	Salary Paid	Other Benefits
Atkinson, Daniel	Vice President, Operations, Southern Ontario	126,469.74	219.76
Baker, Brenda	Vice President, Finance and Corporate Services	124,960.24	219.52
Cameron, Kirk	Director, Information Technology	102,334.73	178.76
Clappison, Stephen	Thermal Operator 4	101,755.60	152.34
Dormer, Robert	Project Manager	105,611.42	190.55
Edwards, David	Regional Manager, South Peel	104,578.32	184.06
Ethier, Marc	Regional Manager, Waterloo	103,956.34	184.04
Jenkins, Robert	Project Manager	106,057.95	186.78
Kempenaar, Gary	Regional Manager, Operational Efficiency & Innovation	106,941.85	184.04
Kind, Robin	General Counsel	190,274.53	326.28
Komulainen, Ilmari	Regional Manager, Eastern Region	106,941.85	184.04
Lang, Glen	Manager, Corporate Planning and Communications	103,132.62	161.96
Love, Steven	Legal Counsel	107,464.46	193.50
Pontone, Dante	President and Chief Executive Officer	164,471.98	279.08
Reid, Nicholas	Vice President, Business Development	111,364.95	194.76
Rinas, Wilhelm	Legal Counsel	146,418.68	261.48
Terry, George	Vice President, Operations, Northern Ontario and First Nations	114,857.07	196.94
Valickis, Andy	Project Manager	107,698.19	189.69
West, Philip	Thermal Operator 3	100,117.16	143.58
Williams, Gordon	Regional Manager, Northern Region	106,941.85	184.04

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