



Annual Report 2013

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Message from Michael Garrett

Chair of OCWA's Board of Directors



2013 was a significant year for the Ontario Clean Water Agency (OCWA), one in which we celebrated

the 20th anniversary of our establishment as an Agency of the province of Ontario.

Anniversary celebrations often provide an opportunity to reflect upon where we've been and where we're headed and this one proved to be no exception for me.

I've had the privilege of serving as the Chair of OCWA's Board of Directors since 2008 and have witnessed significant changes in our approach to business over the years. We're pursuing exciting new business opportunities. We're working to continuously improve our operational efficiency and reliability by implementing innovative processes and solutions. We're helping Ontario technology companies to test and bring new water and wastewater technologies to market. All of these initiatives have helped to make OCWA a leader in the Canadian water industry and move us towards achieving our vision of being a "trusted world leader in water".

What hasn't changed is our commitment to deliver superior service to our clients and protect public health and the environment.

We take great pride in our reputation for delivering clean, safe water to the communities we serve and make an effort to consider the impact of our business on the natural environment when developing our strategies and business plans. We also work diligently to promote our safety-first culture to our staff and everyone that we work with. Keeping our people safe and healthy is one of our core values and is fundamental to everything that we do.

When someone asks me what sets OCWA apart from its competitors, I tell them it's the people who work here. OCWA staff care passionately about what they do and see their roles as much more than just a job. I'm very proud of OCWA's accomplishments over the past two decades and enjoy being a part of an organization that make such positive contributions to the province of Ontario and the people who live here.

As proud as I am of OCWA's history, I'm equally excited about our future. We recently welcomed a new CEO, Rob Andrews, who comes to OCWA with a wealth of private sector experience, most recently as the Chief Executive at AECOM Water, the world's largest water engineering business. I'm very confident that Rob will use his experience overseeing major water programs throughout the world to build on the solid foundation laid out by his predecessor, Jane Pagel, and move the Agency forward in achieving its objectives.

On behalf of the rest of the Board, I'd like to thank OCWA's Executive Management Team for their exemplary leadership and commitment to the Agency over the past year, and thank all of the OCWA employees across the province that work hard each day to provide clean, safe water for our clients and our communities.

Interview with Rob Andrews

OCWA's President and CEO



Rob Andrews joined OCWA as the company's new President and CEO in January of 2014. Below he shares

his thoughts on the Agency, its past accomplishments and future direction.

Q Prior to joining OCWA you had an extensive career in the private sector. What made you want to work at OCWA?

A I am impressed by OCWA's continued great reputation as a water industry leader. My predecessor, Jane Pagel, did a lot to promote the OCWA brand here in Ontario, across the rest of the country and around the world, as well as realign the organization. The message that I was hearing about OCWA from my contacts in the industry was that OCWA was an organization that is focused on building and maintaining relationships with clients by providing them with exceptional operations and maintenance [O&M] and value-added services. My approach to business has always been client-focused, so OCWA was a natural fit for me. I also saw an opportunity to utilize the experience that I've gained in the global water industry over the years to build on Jane's excellent work in making OCWA a world-class organization.

Q Now that you've settled in to your new role as CEO, what are your first impressions of the Agency?

A I'm very happy to say that my initial expectations of OCWA have proven to be correct. The Agency works hard to ensure regulatory compliance and promote health and safety, and has an excellent record for both. OCWA employees are dedicated to the water and wastewater business and are proud of the work that they do. There are a lot of very talented people here with an expert understanding of the O&M business. I'm looking forward to leading the team to continue to expand OCWA's value to our existing and future clients.

Q As an operational enterprise Agency, OCWA is a corporation that is owned by the Province of Ontario. How does OCWA bring value to the Province as its owner?

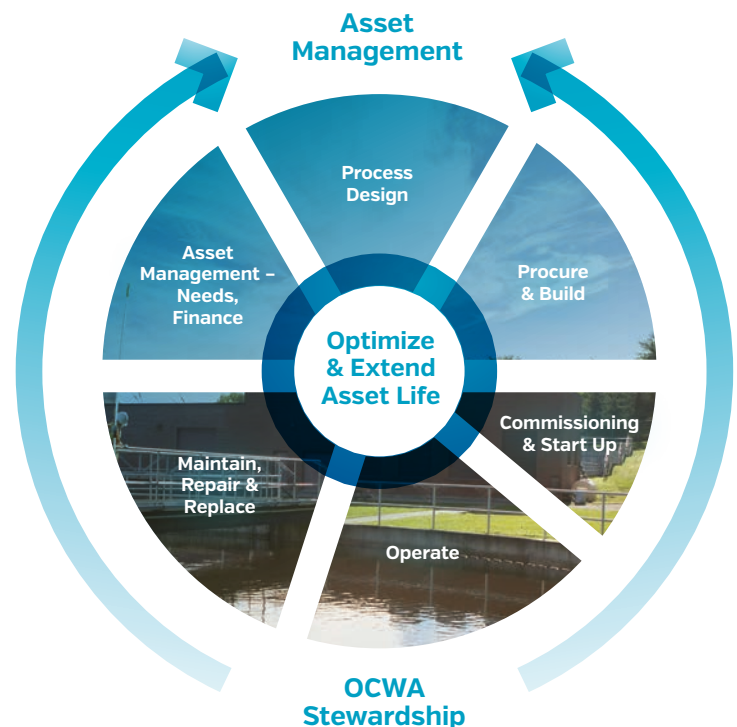
A I believe that OCWA currently brings value to the Province in many ways and that we have the capacity to increase that value over time. The number and range of facilities that we operate, from small treatment facilities in the North to some of the largest water and wastewater facilities in the country in the Region of Peel, provides us with a unique opportunity to work with our clients and Ontario technology companies to test innovative new processes and solutions. This not only benefits the industry but supports the Provincial economy by helping to create well-paid skilled jobs. Our role as the Province's emergency response provider for water, wastewater and flooding emergencies helps to ensure both public health and the environment. We can also play a role in helping to maximize the life cycle of infrastructure assets and develop financially sustainable water/wastewater solutions for municipalities, both of which are of great value in a time where both the Province and municipalities need to make the most of their financial resources.

Q OCWA recently celebrated its 20th anniversary. What has changed in the water and wastewater industry over the past two decades and where do you see the industry headed in the future?

A There have been a lot of significant changes for the industry in the last 20 years. Of most significance for Ontario have been the regulatory changes that were put in place following the Walkerton crisis in 2001. Ontario water regulations are now among the most stringent in the world, which has led to many advances in the way that operators manage water facilities. Another important change for the industry has been the significant advancements in technology over the past two decades. The use of automated supervisory control and data acquisition [SCADA] systems to manage water and wastewater systems has reduced the need for onsite operators at facilities and allowed for greater efficiencies of scale, particularly in northern and remote communities. Moving forward, I anticipate that there will be a number of changes to the regulatory requirements for wastewater operations and continued advancements in water and wastewater technology. I expect that the focus will be on green technologies like those being implemented by leading organizations such as Thames Water in the United Kingdom and PUB, Singapore's national water agency.

Q What role do you think that OCWA will play in the industry in the future?

A I see OCWA as being a total solutions provider for all phases of the water infrastructure life cycle. In addition to providing O&M services, we will be work to support clients at every step of the infrastructure asset life cycle, from planning to capital delivery to commissioning and delivery of capital and system maintenance services throughout the life of their assets. I also see OCWA as being a process optimization and technology leader, identifying and adopting global best practices and expanding on the work that we are currently undertaking as part of the OCWA Tools Evolution Program [OTEP]. Moving beyond our business objectives, I see an increased role for OCWA in supporting Provincial water policy development and protecting Ontario's water resources through education and public awareness.



Who We Are & What We Do

OCWA was established under the Capital Investment Plan Act, 1993 (CIPA) as a Crown corporation with a mandate to provide water, wastewater and other related services to our clients in a manner that protects human health and the environment and encourages the conservation of water resources.



Those services include financing, planning, developing, building and operating water and wastewater facilities and their associated distribution and collection systems. We also strive to meet the objectives of the *Water Opportunities Act, 2010* by working to promote, develop, test, demonstrate and commercialize clean water technologies.

OCWA provides O&M services for more than 180 clients, including municipalities, First Nations communities and private sector companies and institutions. We operate more than 800 water and wastewater treatment facilities—more than any other operator in Canada.

OCWA has an unmatched ability to deliver excellent compliance and safety performance across diverse regions, technologies and sizes of operations. Our people treat water and wastewater for populations as large as 1.3 million in the Region of Peel and as small as 2,400 in Moose Factory, where the facility is operated remotely from Kirkland Lake.

Over 90% of our employees are directly involved in developing, selling and delivering customer solutions. We deliver our services through a hub/satellite structure as part of our approach to ensuring cost-effective operations, which helps facilitate the efficient sharing of management, administration and operational systems to benefit our clients.

In addition to O&M, which is our core business, we offer our clients a broad array of related functions, including engineering, training and other technical and advisory services. In everything we do, we are steadfastly committed to implementing innovative technologies, processes and solutions aimed at improving operational efficiencies and reliability.

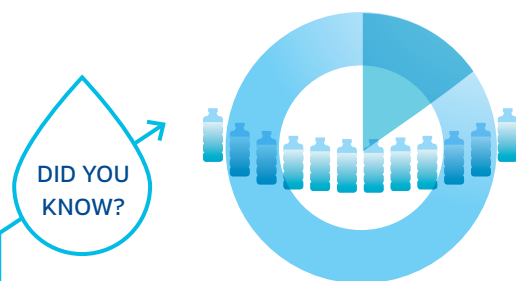
Given the nature of our work and mandate, the protection of public health and safety is our top priority. The Agency's specially-equipped and highly-trained emergency response teams are available 24 hours a day to provide immediate response to water or wastewater

emergencies throughout Ontario, providing an essential resource to the Province. With locations across Ontario, OCWA is always nearby, ready and able to provide emergency resources should the need arise. We also support the Province of Ontario in safeguarding drinking water for the people of Ontario by providing training services for water operators on behalf of the Walkerton Clean Water Centre.

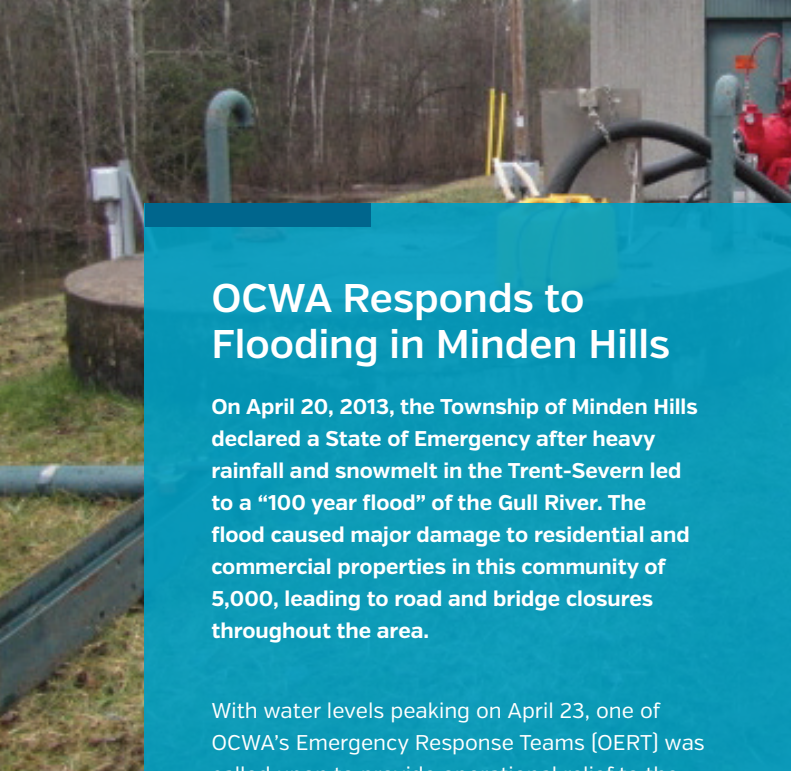
Across Canada and around the world, a combination of aging infrastructure and tight municipal budgets are forcing water utilities to find ways to do more with less. Fortunately, Ontario is a world leader for water technology and OCWA is well positioned to connect promising technologies with pilot sites. We are currently managing several pilot projects at client facilities aimed at conserving energy, improving quality, extending capacity and reducing operating costs.

We're also innovating in the area of information management. OCWA is working to develop and implement integrated information technology systems to automate collection, analysis and communication of water and wastewater facility information from internet-connected sites. Our goal is to ensure that our operational staff and our clients have ready access to up-to-date information on all of the facilities that we operate.

We believe that OCWA's success with these initiatives will help the Province to conserve and sustain our water resources for present and future generations, protect the health of Ontario residents and strengthen Ontario's position as a leading global exporter of water technology products and services.



Every 2 hours,
OCWA treats enough
water to fill enough
500 ml water bottles
to circle the earth.



OCWA Responds to Flooding in Minden Hills

On April 20, 2013, the Township of Minden Hills declared a State of Emergency after heavy rainfall and snowmelt in the Trent-Severn led to a “100 year flood” of the Gull River. The flood caused major damage to residential and commercial properties in this community of 5,000, leading to road and bridge closures throughout the area.

With water levels peaking on April 23, one of OCWA’s Emergency Response Teams (OERT) was called upon to provide operational relief to the community. The team brought additional pumping equipment with them when they arrived to help prevent sewage backups, damage to the water facility’s electrical system and damage to the wastewater facility.

The flood event lasted 26 days, with OCWA able to keep the water and wastewater systems in service under the most extreme circumstances. The section of the town that was not flooded did not report any sewage backups or loss of water service. More importantly, the Town of Minden Hospital was able to remain open because they had uninterrupted water and sewer service. In total OCWA saved the municipality approximately \$2.67M in avoided costs/losses.

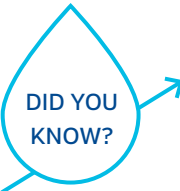
“I was greatly impressed by OCWA’s local team and the OERT team that assisted during the flooding. Thank you from all the residents of Minden Hills.”

Ivan Ingram, Environmental and Property Operations Manager, Township of Minden Hills



OCWA Protects all Ontarians

OCWA protects all Ontarians, every day. As a designated responder for drinking water emergencies, we’re here to support our communities when they need us most and provide water services disaster relief to Ontario First Nations communities when called upon. When fires, power outages or severe weather strike, we work with local responders to restore and protect water and wastewater treatment services. Our portable treatment facility continues wastewater treatment while we repair and maintain small plants.



DID YOU KNOW?



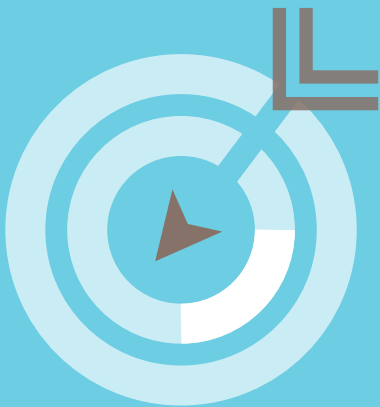
4.5 Million people drink OCWA-treated water everyday.

Vision, Mission & Values



Vision

A trusted world leader in water



Mission

To demonstrate service excellence through the delivery of safe, reliable and cost-effective clean water



Values

OCWA's values are focused on building TRUST with clients and other stakeholders. We strive to gain their trust by being:

- ◆ **Transparent** – Open and honest communication of our business activities.
- ◆ **Respectful** – Build sound relationships with our staff, clients and other stakeholders, by embracing diversity, 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. Continuously learn current trends and innovative technologies and/or processes in our industry.
- ◆ **Safe** – Deliver clean water services to protect our employees, the communities we serve, and the environment.
- ◆ **Teamwork** – Work together, share our collective expertise and be innovative in delivering exceptional results and achieving our mission.



Ensuring Accountability to Our Stakeholders

OCWA's governance structure, powers and responsibilities are set out in CIPA and we are accountable to the Legislature through the Minister of the Environment. A Memorandum of Understanding (MOU) with the Ministry of the Environment (MOE) further clarifies the Agency's roles and duties.

OCWA is governed by a Board of Directors whose members are appointed by the Lieutenant-Governor-in-Council on the recommendation of the Minister.

The Board, which is accountable to the Provincial Legislature through the Minister, follows best practices in corporate governance and adheres to a Board Code of Conduct. The Board is responsible for setting the Agency's strategic direction, monitoring overall performance and ensuring appropriate systems and controls are in place in accordance with the Agency's governing documents.

To help fulfill its mandate and oversight responsibilities, the Board has established three standing committees, the Audit and Finance Committee (AFC), the Compliance and Operational Risk Management Committee (CORM) and the Governance and Nominating Committee (GNC). Quarterly Board and Committee meetings are complemented by at least one annual strategic planning session.

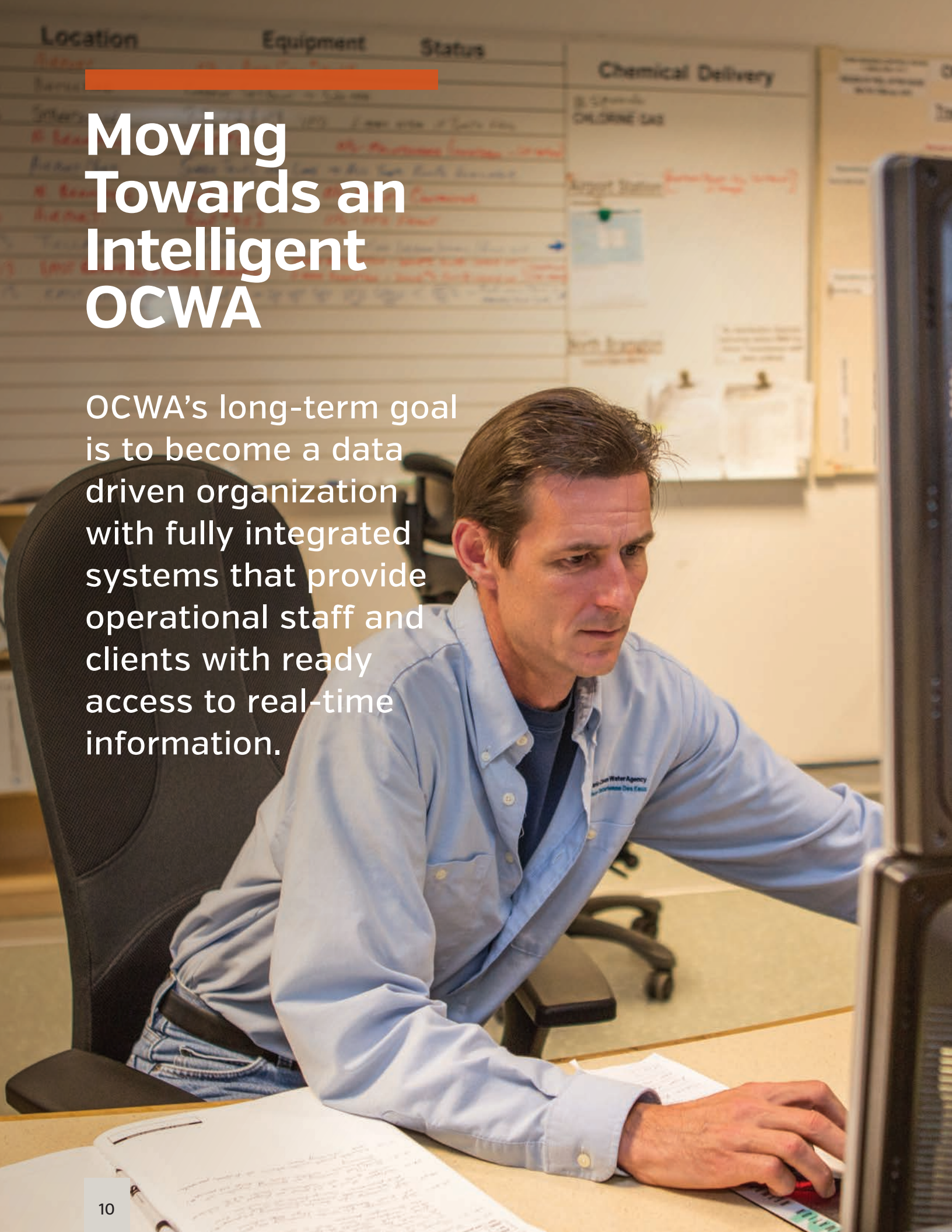
Effectively managing risk is integral to our business, which is why we have established a comprehensive Enterprise Risk Management (ERM) Framework and Policy that is aligned with the requirements set forth in the Ontario Public Service (OPS) Agency Establishment & Accountability Directive. The ERM program plays a vital role in helping the Agency's various business areas identify, assess, manage, monitor and report on key risks, which are regularly reviewed by our Executive Management Team (EMT) and reported to the Board. The Board and EMT perform an assessment of enterprise risks and review and approve the ERM Program and policy each year. Updates on OCWA's key risks and action plans to address the risks are also provided to CORM and the Board on a quarterly basis.

We strive to manage our operations in a manner that is fair, ethical and transparent, and which provides the best overall value for our various stakeholders. We pursue and implement governance best practices at all levels of the organization as part of our continuing mission to enhance transparency and accountability to our clients, the government and the citizens of Ontario.

Accountability

OCWA is committed to maintaining accountability to our clients, the province and the public. To achieve this we:

- ◆ Strive to meet all regulatory requirements;
- ◆ Report on facility performance to our employees, clients and stakeholders;
- ◆ Generate a publicly available Annual Report that is approved by the Minister of the Environment and tabled in the Provincial Legislature;
- ◆ Produce a three-year Business Plan which is submitted annually to the Minister of the Environment for approval;
- ◆ Have annual attest audits conducted by the Office of the Auditor General and periodic Value for Money audits;
- ◆ Provide accessibility to Agency records when requested under the Freedom of Information and Protection of Privacy Act;
- ◆ Comply with Ontario Public Service policies and directives, including the Agency Establishment & Accountability Directive, the Public Sector Expense Review Act, 2009, which requires public disclosure of expenses on the Agency's website, the Public Sector Compensation Restraint to Protect Public Services Act, 2010, the Perquisites Directive and the Procurement Directive; and
- ◆ Utilize an Enterprise Risk Management (ERM) system to identify and assess business and operational risks.



Moving Towards an Intelligent OCWA

OCWA's long-term goal is to become a data driven organization with fully integrated systems that provide operational staff and clients with ready access to real-time information.

This will increase our ability to make timely decisions and improve our efficiency, competitiveness and ability to act quickly on new opportunities. When we were developing our strategic plan we referred to this goal as becoming an “Intelligent OCWA”.

In 2011, we initiated a review of our IT strategy to explore how the Agency’s IT tools could be best aligned with industry trends and our overall business strategy. From this review, OTEP was developed. The program is designed to provide operations staff with enhanced practices and technology solutions that support us in delivering O&M services to our clients in the most efficient and effective manner. This ‘client-centric’ approach to the way we develop and apply technologies is fundamental to enabling us to support our clients in maintaining sustainable communities.

OTEP will also enable us to deliver a comprehensive asset management program that allows operators to fully leverage their skills and use critical information to care for client assets. Operators will be able to ensure ongoing compliance by analysing trends and using automated triggers to prevent premature equipment and technology breakdowns. They will also be able to keep track of productivity gains and manage costs such as chemical and energy consumption.

We have made considerable progress towards achieving our long-term objectives for OTEP in the past year. We successfully implemented a new Process Data Management system, which will improve our ability to store and analyze key operations and compliance data, in ten hubs across the province and are on track to implement the new system across the rest of the organization in 2014. We also upgraded and expanded our IT infrastructure foundation to better facilitate IT disaster recovery, achieving a network uptime of 99.9%.

Substantial work has also been undertaken to enhance our asset and maintenance management systems and processes. We have established an asset management philosophy that includes key goals and metrics for tracking progress towards achieving the goals and are working to streamline and standardize key business processes. We have also begun the process of implementing a new Work Management System for the Agency, with a pilot phase scheduled to begin in early 2014.

Expanding Our Service Offerings

💧 In 2013, OCWA increased revenue by 6.2% over the previous year, surpassing our 2013 revenue target by \$11.9M.

💧 We worked with clients to renew existing O&M contracts and convert single year contracts to multi-year contracts throughout the year. By continuing to demonstrate service excellence to our clients, we were successful in retaining all but three of the O&M contracts that were up for renewal in 2013. We also focused on expanding the value-added services that we provide to our clients and establishing long-term contracts in which we can work to identify efficiencies that will lead to shared savings for OCWA and the client over the life of the contract.

💧 We worked with our clients to identify maintenance projects to extend the life and increase the efficiency of their treatment facilities. By optimizing plant performance, we can reduce costs of energy, chemicals and other consumables. We also provided project management expertise to oversee construction for major capital works at municipal water and wastewater facilities.

💧 OCWA is becoming recognized as an industry expert in energy management of water and wastewater facilities. Working in partnership with the Ontario Power Authority, OCWA’s Engineering Services group conducted thirty-three energy audits of water and wastewater treatment plants for OCWA municipal clients. These audits identified opportunities for capital and other improvements to reduce energy consumption and achieve cost savings.

A photograph of two men shaking hands at a trade show. The man on the right is wearing a blue button-down shirt with a lanyard and a name tag that reads "Arturo Munar". The man on the left is wearing a light blue shirt and glasses. In the background, there are trade show booths, including one for "SEI" and another for "OCWA".

Building Strategic Partnerships to Meet Client Needs

Over the past two years, OCWA has established partnerships with technology companies and other organizations to test and/or pilot new water and wastewater technologies, grow our business by expanding by our service offerings and enhance our global recognition in the industry.

As we expanded our strategic partnership program in 2013, our focus was on establishing partnerships with companies that offer technologies and services that complement and/or enhance our core expertise in the operation and maintenance of water and wastewater plants.

These partnerships increase revenue opportunities for OCWA, create efficiencies, improve client infrastructure and enable us to provide our clients with complete solutions to their water and wastewater needs.

In 2013, OCWA entered into ten new commercial/teaming agreements with external partners. These partners provide a wide variety of products and services, including pipeline asset management, energy management, resource recovery and decision support tools. We also established pilots for new technologies from five Ontario companies at facilities we operate and entered into research and collaboration agreements with academic institutions and utilities to share best practices and applied research findings.

In an effort to ensure that the partners with whom OCWA engages in the future continue to be aligned with client needs, we engaged an international expert on technology incubation and adoption to facilitate a cross-divisional workshop to prioritize the Agency's technology challenges. Over 100 topics were initially considered, which were then narrowed down to 14 areas of technological need that will guide us in 2014 and beyond as we consider new partnerships.



OCWA treats an average daily volume of **1,200,822 m³** of wastewater.

DID YOU
KNOW?



Reducing Energy Consumption through Blower Technology

One of OCWA's most successful partnerships related to energy savings is our agreement with APG Neuros to provide clients with more efficient blower technology. The typical biological wastewater treatment process uses aerobic organisms to break down the waste. These organisms require oxygen which is delivered to the treatment plant by one or more blowers. These blowers often use up to 60% of the plant's total energy consumption. Recent innovations in blower design have dramatically reduced energy consumption. These new blowers, which are typically referred to as "turbo" blowers, incorporate jet engine technologies to eliminate friction, reduce maintenance and deliver more air with less electricity.

In 2013 we installed these high efficiency blower systems in four communities in Ontario. The systems, which cost a total of \$1.24M to purchase and install, are on average 30-50% more energy efficient than the units that they replaced. Assuming an energy reduction of 30% for each community, the new blowers will reduce total energy consumption for all of the communities by more than 3.3 million kilo-watt hours each year and save them a combined \$300K. At this rate of savings, the communities will have recovered the upfront purchase and installation costs in less than five years and will continue to recognize additional energy savings for the life of the equipment, which is typically 20 years. Based on today's rates, that's an additional \$4.5M. In addition to the cost savings outlined above, installing the blowers has eliminated more than two-thousand metric tons of CO₂ from the atmosphere – which is equivalent to removing an estimated 489 passenger vehicles from Ontario roads.

Establishing an Enterprise-wide Brand, Marketing and Communications Strategy

Effectively communicating with our employees, our clients and the people in the communities that we serve is essential to our long-term success.

In 2013 we established a new brand, marketing and communications strategy with a goal of raising our profile in both the industry and in the communities that we service.

In order to better understand our target audience, we conducted a detailed survey and held in-person interviews with employees, senior management, clients and partners. We then evaluated our existing marketing approach based on the survey and interview results and created new marketing and communication materials in order to better tell our story. These new materials, many of which are posted on our website [ocwa.com], include key messages for specific audiences, an OCWA backgrounder, an information sheet with key facts, statistics and contact information, case studies and a new corporate brochure.

We increased our use of social media tools such as Facebook, Twitter and LinkedIn to get the 'OCWA story' out to industry professionals, partners and clients. By the end of the year we had 125 Facebook likes, more than 450 Twitter followers, with five to ten interactions each week, and over 1500 LinkedIn OCWA Group members.

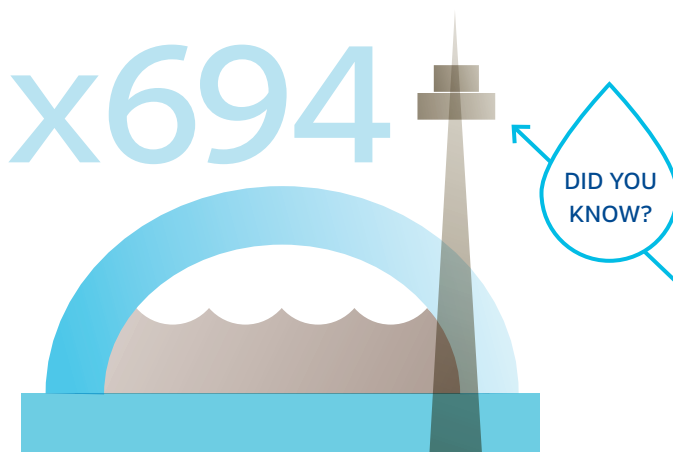


OCWA @OCWAnews • Feb 20

OCWA is excited to be sponsoring the launch of the Ontario Chamber of Commerce's comprehensive report on the Ring of Fire today at the ROM.

↩ Reply ↻ Retweet ★ Favorite ... More

Other initiatives undertaken to raise our profile in the water industry included hosting 27 workshops and seminars for clients and prospective clients, presenting 21 papers at industry conferences and publishing articles in a number of industry publications. We also transitioned our quarterly hard-copy newsletter to a monthly e-newsletter that is delivered to over 2,500 recipients and created a video commemorating our 20th Anniversary. The video, which includes employee stories, plant tours and client testimonials, is featured on our website and our YouTube account.



On average, the volume of water treated by OCWA each day would fill the Roger's Centre **694 times.**

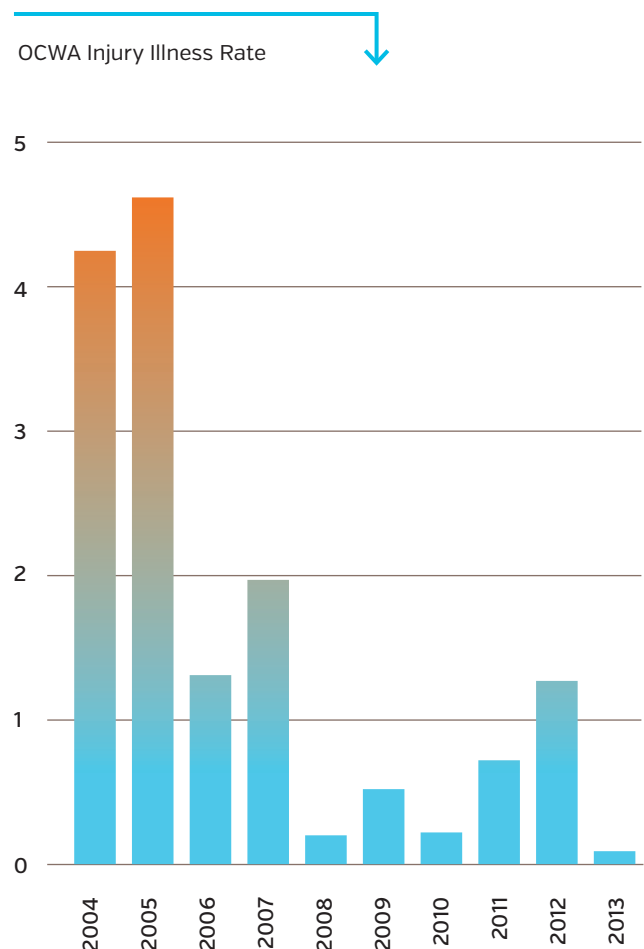
Ensuring Employee Health and Safety

Ensuring the health and safety of our employees and contractors is a top priority at OCWA.

Our strong commitment to the safety of our employees and the communities we serve is part of our culture. In order to promote and support a safe and healthy work environment, we have a well-established Occupational Health and Safety System and have set a goal of zero lost time incidents (LTIs) and a reduction in the occurrence of medical aid events.

In 2013, OCWA had a total of four new LTIs resulting in a total of 10.5 lost days. While we were unsuccessful in achieving our goal of zero LTIs, we were able to reduce our Injury Illness Rate (the total number of hours lost to workplace injuries and illnesses divided by the total number of hours worked by all employees) to 0.09, the lowest we've achieved in the past ten years and well below the industry standard of 1.15.

OCWA operations employees received an average of 24.5 health and safety training hours in 2013 on topics ranging from defensive driving to regulatory and facility-specific issues. We also host an annual health and safety representative conference and hold an annual Safety Week to promote health and safety awareness and continuously improve OCWA's OHSS.



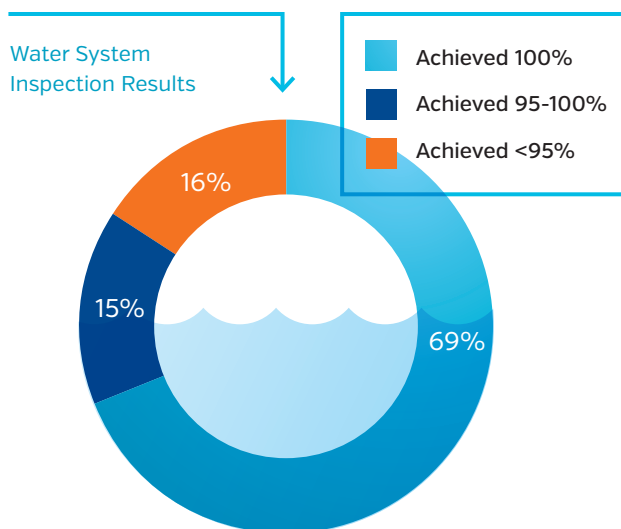
Maintaining Compliant Operations

OCWA is committed effectively operating and managing the water and wastewater facilities for which we are responsible.

We achieve this by monitoring and controlling operational risks and working to continuously improve our systems and processes. Our well established Quality and Environmental Management System includes regularly reviewing key industry performance indicators (KPIs) to assess performance and identify potential areas for improvement. KPI results are reported to our Executive Management Team and the Board of Directors on a quarterly basis.

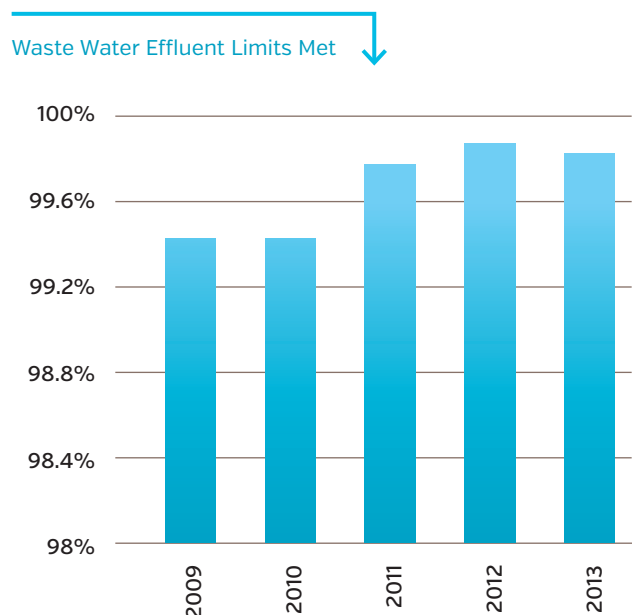
Water System Inspections

Water system inspections are conducted annually by the MOE's Drinking Water Management Division. Inspection results are tracked as one of OCWA's indicators of operational performance. In 2013, the MOE conducted inspections at 178 water systems operated by OCWA. The Agency achieved an average water system inspection rating of 98.0% and 69.1% of these inspections achieved a rating of 100%.



Wastewater Systems

Meeting wastewater effluent limits detailed in Certificates of Approval is tracked as one of OCWA's indicators of operational performance for wastewater facilities. In 2013, OCWA achieved an overall effectiveness rating of 98.6% for four key effluent parameters (Biochemical Oxygen Demand, *E.coli*, Total Phosphorous, and Total Suspended Solids). This result is consistent with prior years.



Meeting Accreditation Requirements

The Safe Drinking Water Act, 2002, requires all municipal residential systems in Ontario to be licensed under the Municipal Drinking Water Licensing Program. At the end of 2013, 175 OCWA-operated water facilities had submitted license applications and approximately 98.3% had achieved Full-Scope Accreditation. We are continuing to work to help clients where OCWA recently became the operating authority to achieve accreditation.

Attracting and Developing Tomorrow's Water Leaders

OCWA operates a highly specialized business that requires a knowledgeable and certified workforce to achieve the Agency's goals, meet client expectations and adhere to regulatory obligations.

One of our main goals is to attract and retain qualified, motivated and engaged employees. We want to be the first choice for individuals who want a career in water. A key element of our attraction and retention strategy is our Leadership Continuity program, which incorporates our Leadership Development and Succession Management initiatives.

Strong leadership skills can improve organizational performance, deepen employee engagement, enhance productivity and strengthen our ability to deliver on strategic priorities. Our Leadership Development program is designed to meet the needs of aspiring managers, new managers and current managers by developing customized learning plans that are tailored to their individual learning needs, career goals and interests. Managers and aspiring managers benefit from customized leadership learning that increases their personal job success, results and engagement. OCWA benefits as an organization by encouraging retention of its best and brightest as higher employee engagement fosters a culture that motivates people to perform to their full potential.

Enhancing the Succession Management component of our Leadership Continuity program was a primary focus in 2013. We worked with our current managers to assess the current competency levels in their groups, identify current and projected skill gaps and develop a plan for filling the gaps which included identifying those individuals in their groups with the skills and inclination to pursue management positions in the future. In 2014 we will work with these employees to develop career paths that will lead them to future management roles.

Just finding the right people to take on management roles isn't enough. We need to provide our new managers with the knowledge and support to succeed in their new roles once they step into them, which is why we have also improved our management orientation program. New managers have a network of key partners, including a peer and senior mentor, to support and guide them through their first six months with OCWA. Meetings with key partners from across the organization are also scheduled for them in advance to familiarize them with their accountabilities as managers and provide them with coaching and support.



Investing in Our Communities

Being socially responsible has always been part of who we are and what we do.



Every day OCWA employees perform a vital service in their communities by providing safe, clean drinking water and by ensuring that the water we treat that goes back to Ontario's lakes and rivers doesn't harm the environment.

We are also committed to supporting the communities in which we live and work by educating the public, participating in community events and volunteering our time to various causes and community initiatives.

2013 was a busy year for OCWA. We supported many community initiatives throughout the year, investing nearly \$100,000 in initiatives to encourage water literacy, arts and culture and physical activity. We developed educational materials for high school students on the value of water and the water cycle, sponsored children's water festivals, and supported museum water exhibits and local charitable events.

We raised \$53,000 for GlobalMedic, a Canadian charity that provides clean safe drinking water to those in need around the world, bringing the amount raised over the last three years to over \$100,000. Our employees also raised more than \$25,000 for various health-related organizations and charities, including the Trillium Health Centre, the Heart and Stroke Foundation, and Movember, a campaign to benefit men's health.

As experts in the water industry, many of our social responsibility activities are focused on raising public awareness of water-related issues. We strongly believe in water literacy and in helping future generations understand the value of water. In 2013, we worked with our operators and a team of school educators to plan curriculum-appropriate teaching materials for students in grade 8. These activities will be piloted in schools across Ontario throughout 2014.

Our "A Prescription for Clean Water" public awareness campaign was also launched this past year, to encourage the public to return unused pharmaceuticals to pharmacies for proper disposal as opposed to flushing them down the toilet or drain.

Thousands of postcards promoting the initiative were handed out to the public throughout the year at various Green Expos and with residential water bills. 2014 will see this program expanded across several larger regions of Ontario.

These are just some of the many Corporate Social Responsibility [CSR] activities in which we participated in 2013. A more comprehensive overview of our CSR program and our 2013 accomplishments is included in our 2013 Sustainability Through Social Responsibility Report, which is posted on our website [ocwa.com].



Moving Forward With Our Social Responsibility Initiatives

Working with a cross-section of employees, management and external stakeholders, we held several high-level workshops to formalize our CSR program and establish a clearer vision and strategy. During the workshops we focused on a few key questions: What do we believe as an Agency? What matters most to our people, to our clients and to our surrounding communities? What are our long-term goals for managing sustainability? The resulting discussions provided us with greater clarity regarding our future direction and helped us to prioritize our CSR efforts for 2014 and beyond.

Our CSR program is now divided into three central pillars that help define the Agency's key priorities and genuinely speak to what is important to our employees: Our Community, Our Environment and Our People. Within these three pillars, we will continue to focus on some familiar programs, but we will also pursue new initiatives that we believe align with our core OCWA values.

Overview of 2013 Results



Intelligent OCWA

Create a culture of using data to drive the business



Establish and deliver OCWA Tools Evolution Program (OTEP) to ensure integration of systems and business processes



Implementation of OTEP initiatives on target:

- Installed new Process Data Management system in 10 hubs
- Upgraded and expanded IT infrastructure foundation to better facilitate IT disaster recovery, achieving a network uptime of 99.9%
- Established an asset management philosophy that includes key goals and metrics for tracking progress towards achieving the goals
- Selected vendor for new Work Management System through a competitive procurement process

Expanded Services Offerings

Expand OCWA's service offerings and create a strategic partnership strategy

Pursue new O&M, Out of Scope and consulting business in Ontario

Create strategic partnerships and support research and development projects driven by client needs

Surpassed 2013 revenue target:

- \$159.4M Total Revenue (7.9% above plan)
> \$117.4M O&M | \$39.0M Out of Scope | \$3M Consulting

Continued expansion of the strategic partnerships program:

- 10 new commercial/teaming agreements with external partners
- Established pilots for new technologies from 5 Ontario companies
- Entered into research and collaboration agreements with academic institutions and utilities to share best practices and applied research findings

Enterprise-wide Brand, Marketing and Communications Strategy

Build awareness of OCWA and establish a unique OCWA brand

Develop and implement an enterprise wide brand, marketing and communication strategy

Developed a communications strategy, increased visibility and expanded the use of social media as a communications tool:

- Developed new marketing and communication materials
- Held 27 workshops with 267 attendees from 151 organizations
- Presented 21 papers at conferences
- Electronic newsletter sent to approximately 2500 people each month
- Average of 7,700 unique visitors to ocwa.com each month
- 125 Facebook likes, 450 Twitter followers and over 1500 LinkedIn OCWA Group members



Health & Safety

Achieve zero lost time incidents

Zero lost time incidents

Continued focus on employee health and safety:

- 4 new LTIs resulting in a total of 10.5 lost days
- 0.09 Injury Illness Rate

Compliance

Expect, achieve and sell operational excellence

Water and wastewater facilities are 100% compliant

Achieved operational compliance targets:

- 98.0% average water system inspection rating
- 69.1% of water system achieved an inspection rating of 100%
- 98.6% overall effectiveness rating for key effluent parameters (Biochemical Oxygen Demand, *E.coli*, Total Phosphorous and Total Suspended Solids)

Continuity of Workforce

Ensure continuity of certified and experienced work force

Continue the rollout of succession management planning

Implemented succession management program across the Agency:

- 95% of critical and high risk positions have identified back up candidates

Corporate Social Responsibility

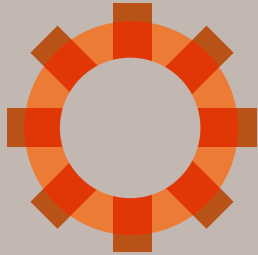
positive contribution to the communities where our employees live and work and the lives of Agency employees

Implement OCWA's CSR plan

Continued development of OCWA's CSR program:

- Established program vision and strategy
- Significantly increased the number of CSR events [100 events held in 2013 compared to 42 in 2012]

Future Direction 2014 Priorities

	Strategic Initiative	Goal
Strategy 1: Growth through New Business Streams and Strategic Partnerships 	New Markets and Service Offerings	Growth through expansion of our service offerings and penetration of new markets
	Strategic Partnerships	Expand our strategic partnership program and formalize our approach to research and innovation
	Participation in Alternative Financing and Procurement (AFP) Projects	Successful participation as a member of an AFP proposal team
Strategy 2: Increased Productivity, Efficiency and Effectiveness 	Intelligent OCWA	Continue OCWA Tools Evolution Program [OTEP] implementation
	Strategic Procurement	Achieve cost savings through centralized procurement of regularly purchased goods and services Incorporate sustainability criteria into the Agency's procurement process by including environmental, economic and social considerations as components in our overall vendor evaluation criteria, while continuing to ensure adherence to government procurement directives
	Enterprise Risk Management	Incorporate sound risk management practices into all Agency business activities
	Consulting Services and Operational Support	Optimize utilization of staff providing consulting and support services with a focus on providing value-added services that support our long-term growth objectives
Strategy 3: Client, Employee and Community Engagement 	Brand, Marketing and Communications	Increase recognition of our brand on a global level and improve our visibility with key players and potential strategic partners
	Employee Career Development and Talent Attraction	Enhance OCWA's Leadership Continuity program Implement initiatives to increase the number of licensed water quality professionals and promote careers in the water industry
	Education and Public Awareness	Communicate the value of water to the public through education and public awareness campaigns

Board of Directors



Michael R. Garrett

Chair

*Term: June 2008 –
December 2014*

Michael R. Garrett has extensive experience as a senior executive in the public sector. Mr. Garrett has served in a variety of capacities including: Chief Administrative Officer for the Regional Municipality of York, City Manager for the City of Toronto, Chief Administrative Officer for the Regional Municipality of Peel, Assistant Deputy Minister of the provincial Ministry of Natural Resources, Program Director for the South Nation Basin and Director of Water Resources with the Metropolitan Toronto and Region Conservation Authority.

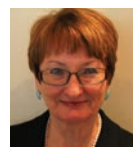


Debbie Baxter

*Term: April 2013 –
April 2016*

As LoyaltyOne's VP Workplace Services, Debbie oversees all aspects of Corporate Responsibility and Real Estate. Trained by former US Vice President and Nobel laureate Al Gore, Debbie is passionate about raising public awareness of climate change. Coming from an operations and technology background, Debbie is also a Certified Management Accountant and holds a Corporate Directors ICD.D designation. Debbie is a recipient of the 2013 Clean50 award and the 2011 Green Living award for Excellence in Corporate Responsibility.

Melanie has also served on the Great Spirit Circle Trail Board of Directors, a not-for-profit destination marketing organization. Melanie completed the Directors Education Program at the Rotman School of Management and is now a certified corporate director. Melanie also has a Masters in Business Administration.



Susan Fletcher

*Term: November 2009 –
December 2015*

Susan Fletcher, a Certified Management Accountant and consultant, has provided consulting services in a variety of business sectors over the past 20 years, including financial services, health care, non-profit organizations and municipal government. Ms. Fletcher has previously held senior financial management positions in the automotive and research and development sectors. She is a member of the Society of Management Accountants of Ontario and holds a Bachelor of Commerce degree from Queen's University.



John Bergsma

Vice Chair

*Term: August 2007 –
September 2016*

John Bergsma is a former 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 Inc. and Pioneering Technologies 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 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. Mr. Bergsma holds a Master of Applied Science in Water Resource Planning.



Melanie Debassige

*Term: October 2013 –
October 2016*

Melanie Debassige, MBA, ICD.D, General Manager of the Serpent River First Nation Economic Development Corporation, has over 15 years of experience in Aboriginal Economic Development. Melanie was appointed to the Board of Directors of the Ontario Clean Water Agency in October, 2013. Previously, she held the elected position of Councillor with the M'Chigeeng First Nation Chief and Council for over seven years and was appointed as a police commissioner with the United Chiefs and Councils of Manitoulin Police Services for seven years. She also holds a position as Director on the Mother Earth Renewable Energy Board that oversees the for-profit wind turbine corporation that is solely owned by M'Chigeeng First Nation.

Board of Directors



Elizabeth A. McLaren

Term: November 2010 – November 2016

After a career in the Ontario Public Service that spanned nearly four decades, Elizabeth McLaren retired in 2008. Over the years she held several different senior-level positions, including Assistant Deputy Minister for the Office of the Greater Toronto Area. Immediately preceding her retirement, Ms. McLaren was the Assistant Deputy Minister of the Municipal Services Division in the Ministry of Municipal Affairs and Housing. Since her retirement, she has been a Senior Associate with Hill & Knowlton Canada and GCI Group.



Brian Mergelas

Term: December 2012 – December 2016

Brian Mergelas is the CEO of WaterTAP, an Ontario corporation that was created to help Ontario become a global leader in water technologies. Dr. Mergelas is the former Chief Executive Officer of the Pressure Pipe Inspection Company, which he founded in 1997. He presently serves on the board of the Children's Aid Foundation and is an advisor in the MaRS Cleantech practice. He is a member of the Young Presidents Organization, the York Angel Investors, as well as various industry associations, including the American Water Works Association, the Water Environmental Federation, the American Society for Non Destructive Testing and the American Society of Civil Engineers.



Gino Nicolini

Term: August 2008 – August 2016

Gino Nicolini is semi-retired from a career in engineering. Mr. Nicolini has served as: President of Nicolini Construction and Engineering Ltd., President of Val Nicol Construction Ltd., and Project Engineer of Kilmer Van Nostrand Construction and Engineering Ltd. Mr. Nicolini serves as member of the Landfill and Waste Disposal Regulatory Policy Group of the Public Advisory Committee for the City of Ottawa. His previous contributions include serving as President of the Ottawa-Gloucester Rotary Club and member of the Committee of Adjustment for the City of Ottawa. Mr. Nicolini is a member of the Professional Engineers of Ontario.



Michael Thorne

Term: June 2013 – June 2016

Michael Thorne is a Municipal Consultant with over 40 years of experience in the planning, operation and construction of water, wastewater and solid waste projects. He spent 15 years with the Ministry of the Environment managing the South Peel Water and Sewage System prior to joining the Municipality of Metropolitan Toronto, where he held a variety of senior positions including the Commissioner of Works with the Metro Works Department. Since then he has provided a variety of consulting services in delivering capital water and wastewater programs for the Regions of Halton, Durham, and Peel and the City of Hamilton. He is currently working with the Region of Halton.

Board Committees

Audit and Finance Committee

- ◆ Susan Fletcher (Chair)
- ◆ Brian Mergelas
- ◆ Debbie Baxter
- ◆ Gino Nicolini

Compliance and Operational Risk Management Committee

- ◆ John Bergsma (Chair)
- ◆ Elizabeth McLaren
- ◆ Gino Nicolini
- ◆ Michael Thorne
- ◆ Melanie Debassige

Governance and Nominating Committee

- ◆ Debbie Baxter (Chair)
- ◆ John Bergsma
- ◆ Elizabeth McLaren

Officers of the Agency



Rob Andrews

**President and Chief
Executive Officer**
(January 2014 – Present)

Rob Andrews was appointed President and CEO of the Ontario Clean Water Agency on January 6, 2014. Prior to joining OCWA, Rob was the Chief Executive, Global Water at AECOM, where he formed and integrated the company's first global water division. AECOM Water is now the world's largest water engineering business, with annual revenues exceeding \$1 billion and more than 6,000 dedicated staff providing water, wastewater, water resources and community infrastructure services to clients on 6 continents. Rob's other previous industry experience includes a role as the Executive Vice President, Global Water Projects and Products Division, at Earth Tech, a company with annual revenue of \$600 million and 3000 staff, including several water treatment technology companies, that was acquired by AECOM in 2008.



Jane Pagel

**President and Chief
Executive Officer**
*(November 2010 –
January 2014)*

Jane Pagel was President and Chief Executive Officer of the Ontario Clean Water Agency from November, 2010 until January, 2014. Prior to joining OCWA, Ms. Pagel held a number of senior positions in both Government and the private sector, including Jacques Whitford Limited, Zenon Environmental Laboratories and Ontario Hydro, as well as a number of scientist, management and executive positions within the Ministry of the Environment. Ms. Pagel currently serves on the board of Sustainable Development Technology Canada, chairing the board's Project Review Committee, and was a longstanding member of the Prime Minister's Advisory Council on Science and Technology. She is also a member of the WaterTAP Board of Directors.



Dan Atkinson

**Vice President,
Finance and Corporate
Services**

Dan Atkinson assumed his current role in December 2010. Prior to that, he was Vice-President, Southern Operations. He has been with the Ontario Public Service for over 30 years and joined OCWA at its inception in 1993. One of the Agency's original officers, Mr. Atkinson has served as Corporate Controller and Vice President of Operations. He is a Certified General Accountant and a Certified Management Accountant and holds a Bachelor of Commerce degree and a Masters of Business Administration.



Cliff Jones

**Vice President, Sales,
Marketing and Engineering**

Cliff Jones joined OCWA as the Vice President, Sales and Marketing in August 2012 with a wealth of experience in the water industry, including his role as Vice-President of Sales, Marketing and Pipeline Services for Wachs Water Services, a leader in the assessment of pipelines and underground assets in North America. He currently serves as Chair of the Pipeline Committee for the National Association of Sewer Service Companies, Education Chair for the Centre for Advancement of Trenchless Technologies and International Chair for the American Society of Civil Engineers' Pipelines 2012 Committee. He has also published many papers and articles focused on condition assessment of pipelines, water distribution efficiency and asset management. Mr. Jones holds a Master of Business Administration from Warwick University as well as a degree in Industrial Chemistry and a teaching degree.

**DID YOU
KNOW?**

2,271,247 litres per second flow over the Niagara's Horseshoe Falls. OCWA treats water that's equivalent to 8.13 minutes of flow over the Falls each day. That's the equivalent of 2.06 days flow each year.

Officers of the Agency



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 several years in private practice in Toronto in the areas of corporate, commercial and environmental law. Ms. Kind held the position of Assistant General Counsel at OCWA from July 2000 until she was appointed General Counsel in May 2003.



Bev Mollard

Vice President, Operations

Bev Mollard joined OCWA at its inception in 1993 and has been with the Ontario Public Service for almost 30 years. She has held many challenging positions with the Ministry of the Environment and OCWA as Plant Operator, Chief of Operations, Plant Assistant Superintendent, Assistant Operations Manager, Research and Compliance Specialist and Regional Manager prior to assuming her current role as Vice President, Operations in May 2012. Ms. Mollard holds her CRSP [Canadian Registered Safety Professional] Designation and is actively involved with Water Environment Association of Ontario as a member of the Operations Challenge Committee. Ms. Mollard is currently one of the Ontario Directors for the Canadian Water and Wastewater Association [CWWA].



Mohammad Qureshi

**Vice President,
Information
and Information
Technology**

Mohammad Qureshi joined the Information Technology department at OCWA in 2000. He has held several roles within the Agency, including Manager of Business Solutions and of Infrastructure Services, and most recently as Director, Business Transformation prior to assuming his current role of Vice President, Information and Information Technology in July 2012. Mr. Qureshi holds a Bachelor of Science in Computer Science from the University of Toronto and is ITIL [Information Technology Infrastructure Library] certified. He is also a member of both the CIO Association of Canada and the Municipal Information Systems Association [MISA].



Sandra Witlarge

Controller, Finance

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.

Financial Results



Management Analysis of Financial Results

Canada's economic growth has been lower than expected due to lower than expected US growth and global economic uncertainties. These conditions have contributed to keeping inflation rates low. While this means that costs for goods and services did not escalate, revenue increases on fixed price contracts were marginal, in the 1% to 1.5% range. Despite these economic situations, municipal spending on infrastructure maintenance and upgrades continued in 2013, positively impacting OCWA's 'out of scope' revenue.

Balance Sheet

A net income of \$0.8M, including investment income, has resulted in the Agency's net assets increasing to \$187.6M. Total assets at December 31, 2013 were \$219.4M. OCWA has adopted a conservative approach to liabilities and has fully funded the non-pension employee future benefits, which has resulted in a 18.3% increase in long term liabilities compared to 2012. Despite this, OCWA continues to have a strong cash and investments position of \$62.9M with zero debt.

Revenue

OCWA focused on retaining its current client base of offering operation and maintenance services by demonstrating service excellence to clients. The Agency was successful in achieving 93.6% contract retention. The Agency's revenue from utility operations increased by 6.7% compared to 2012, due to contractual increases, the impact of a full year of revenue from the Lake Huron and Elgin contract which commenced in July 2012, and an increase in 'out of scope' services. A significant portion of the 'out of scope' services offered to large clients does not attract a mark-up since the resources to manage these projects are fully funded by the clients.

The Agency continues to provide engineering and training services to clients. Fees related to consulting engineering services increased by 26% compared to 2012, while fees from training services decreased by 60% due to the loss of a significant training contract. The result was an overall decrease in fees of 23%.

Management Analysis of Financial Results

Expenses

OCWA manages key commodity costs by establishing multi-year contracts with suppliers through the tender of bulk purchases for process chemicals. In addition, the Agency establishes multi-year contracts with suppliers for laboratory testing and biosolids management and haulage through the RFP process. The ability to secure multi-year contracts minimizes exposure to market volatility, reduces costs and ensures a reliable supply of commodities and services.

Some client contracts are negotiated to allow for flow-through of costs such as chemicals and insurance, where the client pays for these costs, thereby reducing OCWA's exposure to the price fluctuations of these goods and services.

In 2013, the Agency conducted several RFPs to establish Vendor of Record (VOR) contracts for the procurement of various services, including mechanical, electrical, Heating, Ventilation and Air Conditioning (HVAC) and motor refurbishment services, which will significantly reduce the cost of these services over the terms of the various contracts.

The costs of biosolids management and haulage are usually impacted by fuel prices. In 2012, several contracts were re-tendered, with vendors agreeing only to two year contract terms due to the volatility of fuel prices. On average, prices for these contracts increased by 9.4% compared to 2012.

Clients continue to take advantage of the insurance prices offered by OCWA. The Agency's favourable claims history and bulk purchase of this service kept premium rates low in 2013. Cost increases of 14% and 7.6% for property and liability insurance respectively were primarily due to increased client property values and OCWA's revenue increases. Recent disasters, including floods in Toronto and Alberta and the significant losses faced by companies as a result will impact property insurance premiums and deductible levels in 2014 and beyond.

Salary and benefit increases were driven by new positions and the approach to fully fund non-pension future employee benefits. This year director compensation totaled \$37,604.

In 2012, the Agency's Board of Directors approved the OCWA Tools Evolution Program (OTEP) strategy to transform and modernize the information technology systems. Amortization costs related to this project contributed to a 6.9% increase in amortization costs compared to 2012. Re-engineering costs for OTEP of \$0.7M was included in other operating expenses.

Investment Income

OCWA's financing income is comprised of income from short term investments, interest on cash balances and interest on the Agency's inherited loan portfolio. Interest income from the inherited loan portfolio continues to decline as loans are paid down.

Continued global economic uncertainty has caused the Bank of Canada to continue to hold interest rates at historically low levels. Nevertheless, negotiations with major banks on short and long term investments and an investment in a municipal bond portfolio has resulted in returns that delivered an increase in net investment income of 2.4% compared to 2012.

Management's Responsibility for Financial Information

OCWA's management and 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 Canadian public sector accounting standards.

OCWA 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 continues to maintain, 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 Executive Management Team.

The Board of Directors ensures that management fulfills its responsibilities for financial and internal control. The Board of Directors and the Audit and Finance Committee of the Board meet quarterly to oversee the financial activities of the Agency and at least once a year to review the financial statements and the external auditor's report and recommend them to the Minister of the 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 presented fairly in accordance with Canadian public sector accounting standards. The Auditor's Report outlines the scope of the Auditor's examination and opinion.



Rob Andrews
President and Chief Executive Officer



Dan Atkinson
Vice President,
Finance and Corporate Services

Toronto, Ontario
March 27, 2014



Independent Auditor's Report

To the Ontario Clean Water Agency,
the Minister of the Environment,
and the Minister of Finance

I have audited the accompanying financial statements of the Ontario Clean Water Agency which comprise the balance sheet as at December 31, 2013 and the statements of operations and change in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Clean Water Agency as at December 31, 2013 and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance Canadian public sector accounting standards.

Toronto, Ontario
March 27, 2014

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

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Balance Sheet

As at December 31, 2013

(in thousands of dollars)

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and short-term investments (note 3a)	39,205	39,849
Accounts receivable, net		
Municipalities and other customers (note 3b)	22,062	24,384
Ministry of the Environment	144	333
Harmonized sales tax receivable	1,751	1,778
Prepaid Expenses	483	441
Current portion of investments receivable for water and wastewater facilities (note 2)	920	918
	64,565	67,703
Non-current assets:		
Investments in term deposits (note 3a)	23,719	17,058
Investments receivable for water and wastewater facilities (note 2)	2,161	3,067
Loan receivable - Ontario Infrastructure and Lands Corporation (note 3c)	120,000	120,000
Tangible Capital Assets, net (note 4)	8,986	9,742
	154,866	149,867
Total Assets	219,431	217,570

Liabilities and Net Assets

As at December 31, 2013

[in thousands of dollars]

	December 31, 2013	December 31, 2012
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	15,856	17,198
Current portion of employee future benefits (note 8a)	3,093	2,688
	18,949	19,886
Long-term liabilities:		
Employee future benefits (note 8a)	12,855	10,871
Net Assets	187,627	186,813
Contingencies (note 7) and Measurement Uncertainty (note 1e)		
Total Liabilities and Net Assets	219,431	217,570

see accompanying notes to financial statements

On behalf of the Board



Director



Director

Statement of Operations and Change in Net Assets

For the year ended December 31, 2013

(in thousands of dollars)

	December 31, 2013	December 31, 2012
Utility Operations Revenues:		
Utility operations	157,222	147,217
Fees	2,186	2,828
Total Operating Revenues	159,408	150,045
Operating Expenses:		
Salaries and benefits [note 8a and note 8b]	72,791	67,544
Other operating expenses	85,618	81,410
Amortization of tangible capital assets	3,079	2,878
Total Operating Expenses	161,488	151,832
Deficiency of revenue over expenses – Utility Operations	[2,080]	[1,787]
Interest from Investments and loans receivable	2,914	2,845
Excess of revenue over expenses	834	1,058
Net Assets, opening balance	186,813	185,755
Adjustment to Net Assets [note 6]	[20]	0
Net Assets, ending balance	187,627	186,813

see accompanying notes to financial statements

Statement of Cash Flows

For the year ended December 31, 2013

[in thousands of dollars]

	December 31, 2013	December 31, 2012
Cash Provided by (used for) Operating Activities		
Deficiency of revenue over expense-Utility Operations	[2,080]	[1,787]
Items Not Affecting Cash		
Amortization of Tangible Capital Assets	3,079	2,878
Increase in future employee benefits expense	3,563	1,771
	4,562	2,861
Changes in non-cash operating working capital		
Accounts Receivable	2,538	[3,201]
Prepaid Expenses	[42]	[123]
Accounts Payable and Accrued Liabilities	[1,342]	636
Legislated Severance	[1,174]	[930]
	[20]	[3,618]
Net Cash Flows from operating activities	4,542	[757]
Cash Used in Investing Activities		
Interest	2,914	2,845
Principal Repaid on Loans	904	601
(Increase) Decrease in non-current Term Deposits	[6,661]	5,373
Net cash flows from investing activities	[2,843]	8,819
Cash Used in Capital Activities		
Tangible Capital Assets Acquired	[2,323]	[5,525]
Cash Used in Financing Activities		
Changes in Net Assets	[20]	-
Increase (decrease) in Cash and Short-Term Investments	[644]	2,537
Cash and Short-Term Investments, Opening Balance	39,849	37,312
Cash and Short-Term Investments, Closing Balance	39,205	39,849

Notes to Financial Statements

December 31, 2013

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”].

The Agency’s objects include:

- (a) assisting municipalities, the Government of Ontario and other persons or bodies to provide water and sewage works and other related services by financing, planning, developing, building and operating those works and providing those services;
- (b) financing and promoting the development, testing, demonstration and commercialization of technologies and services for the treatment and management of water, wastewater and stormwater;
- (c) carrying out the activities described in clauses (a) and (b) in Ontario and elsewhere in a manner that protects human health and the environment and encourages the conservation of water resources; and
- (d) with respect to activities described in clauses (a) and (b) that are carried out in Ontario, carrying them out in a manner that supports provincial policies for land use and settlement.

The Agency is exempt from Federal and Provincial income taxes.

1. SIGNIFICANT ACCOUNTING POLICIES

The Agency is classified as a government not-for-profit for financial reporting purposes. These financial statements are prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board. The significant accounting policies are as follows:

(a) Cash and Short-term Investments

Cash and short-term investments, including a portfolio of bonds, are recorded at cost. Accrued interest is recorded in accounts receivable. Bonds are expected to be held until maturity.

Notes to Financial Statements

December 31, 2013

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Tangible Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost. Tangible Capital Assets are amortized on a straight-line basis as follows:

Computer software	2-7 years
Information systems	7 years
Furniture and fixtures	5 years
Automotive equipment	4-20 years
Computer hardware	3-7 years
Machinery and equipment	5 years
Leasehold improvements	Life of the lease

(c) Revenue Recognition

Revenue on contracts with clients for the operation of water and wastewater treatment facilities based on a fixed annual price is recognized in equal monthly amounts as earned.

Revenue on contracts with clients based on the recovery of costs plus a percentage markup or recovery of costs plus a fixed management fee is recognized at the time such costs are incurred.

Revenue for additional work for clients outside the scope of the operations and maintenance contract, such as capital repairs on equipment, is recognized when the costs are incurred, and normally includes a pre-determined markup on cost.

(d) Financial Instruments

A financial instrument is an asset that will ultimately be settled in cash.

All financial instruments have been valued at cost, which approximates fair value.

The financial instruments consist of cash and short-term investments, accounts receivable, investments receivable, bond portfolio, term deposits, loans receivable, accounts payable and accrued liabilities, and employee future benefits.

A Statement of Remeasurement Gains and Losses has not been prepared because all financial instruments are valued at cost and there are no changes in fair value to record.

Notes to Financial Statements

December 31, 2013

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to 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

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.

The investments receivable are supported by agreements that bear interest at rates between 4.25% and 10.52%. Scheduled principal repayments of the investments are as follows:

<i>[12 Months Beginning January]</i>	<i>[in thousands of dollars]</i>
2014	920
2015	709
2016	578
2017	573
2018	227
Thereafter	74
	3,081
Less: Current portion	[920]
	2,161

Notes to Financial Statements

December 31, 2013

2. INVESTMENTS RECEIVABLE FOR WATER AND WASTEWATER FACILITIES (cont'd)

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 Agency has recognized the loan as fully impaired and accordingly the loan amount of \$18.6 million has been reflected in an allowance for loan impairment.

Other than as described in this note, there are no other provisions established for investment receivables.

3. FINANCIAL INSTRUMENTS

(a) Cash and Short-Term Investments

The Agency has \$62.9 million invested in bank balances, term deposits and a bond portfolio as follows:

	<i>[in thousands of dollars]</i>
Bank Balances	14,881
Short term bonds (coupon rates 2.24% to 10%)	5,083
Term deposits due within a year (Interest rates 1.87%-2.27%)	<u>19,241</u>
Cash and Short-Term Investments	39,205
Term deposits due within two years (Interest rates 1.98%-1.99%)	<u>23,719</u>
	<u>62,924</u>

The fair value of the bank balances and term deposits approximates carrying value and the fair value of the short-term bond portfolio is \$4.968 million.

Notes to Financial Statements

December 31, 2013

3. FINANCIAL INSTRUMENTS (cont'd)

(b) Credit Risk

The maximum exposure to credit risk consists of the total of cash and short-term investments, accounts receivable, investments in term deposits, investments receivable and loans receivable.

The Agency is exposed to low credit risk because receivables are due from municipalities and payment is usually collected in full. Credit rating reviews are performed for non-municipal clients. All bank balances and short-term investments are held by large Canadian chartered banks.

A breakdown of the accounts receivable from municipalities and other customers is as follows:

	<i>[in thousands of dollars]</i>
0-60 days	21,095
61-90 days	266
91-120 days	118
121-150 days	126
More Than 151 days	1,008
Accounts Receivable [Gross]	22,613
Allowance for Doubtful Accounts January 1, 2013	[360]
Increase in Allowance	[191]
Allowance for Doubtful Accounts December 31, 2013	[551]
Total Net Accounts Receivable Municipalities and Other Customers	22,062

Notes to Financial Statements

December 31, 2013

3. FINANCIAL INSTRUMENTS (cont'd)

(c) Cash Flow Risk

The Agency has extended a \$120 million loan to Ontario Infrastructure and Lands Corporation with a variable interest rate set at four basis points below the average monthly Canadian Dollar Offered Rate. It also has term deposits and bank balances that are sensitive to the prevailing interest rates. As a result, it is exposed to a cash flow risk related to the fluctuations in interest rates.

(d) Other

The Agency is exposed to low risk for electricity and chemical costs because most of the contracts are structured to pass these costs through to the customer.

Other than as described in these notes, the Agency is not exposed to any additional currency, liquidity or other price risk on its financial instruments.

4. TANGIBLE CAPITAL ASSETS

[in thousands of dollars]

	Cost	Accumulated Amortization	Net December 31, 2013	Net December 31, 2012
Computer Software	3,780	1,040	2,740	2,110
Information Systems	3,655	2,497	1,158	1,577
Furniture and Fixtures	157	56	101	61
Automotive Equipment	5,232	3,902	1,330	2,425
Computer Hardware	5,300	2,334	2,966	2,861
Machinery and Equipment	645	241	404	423
Leasehold Improvements	377	90	287	285
	19,146	10,160	8,986	9,742

The Board has approved capital expenditures of up to \$14.7 million from fiscal 2012 to 2018 to modernize the Agency's information technology infrastructure.

Notes to Financial Statements

December 31, 2013

5. LEASE COMMITMENTS

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

	<i>[in thousands of dollars]</i>
2014	1,643
2015	1,607
2016	1,510
2017	1,355
2018	1,077
Thereafter	1,098
	8,290

6. NET ASSETS

When the Agency was first established, the opening net assets were received from the Province of Ontario in the form of the book value of net assets in excess of obligations assumed.

Subsequent adjustments to the opening balance relate to legal costs that were agreed to prior to the establishment of the Agency.

7. 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.

Notes to Financial Statements

December 31, 2013

7. CONTINGENCIES (cont'd)

(b) Letters of Credit

The Agency has a line of credit with the Royal Bank of Canada for \$10.0 million. This line of credit has been used to provide letters of credit to municipalities in accordance with the terms of their operations and maintenance agreements. As of December 31, 2013, nothing has been drawn on the letters of credit.

8. RELATED PARTY TRANSACTIONS

(a) 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 obligations have been estimated at \$16.0 million [2012 - \$13.6 million] of which \$3.1 million [2012 - \$2.7 million] has been classified as current liability. The amount charged to the income statement in 2013 was \$3.6 million [2012 - \$1.8 million] and is included in salaries and benefits expense in the Statement of Operations and Changes in Net Assets.

Included in employee future benefits obligation is an estimated workers compensation obligation in the amount of \$3.3 million [2012 - \$2.4 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, 2012.

It is management's opinion that the balance at December 31, 2013 will not be materially different. Adjustment to the estimated WSIB obligation cumulative balance, if any, will be made in the year the updated balance is provided by WSIB.

The cost of other post-retirement, non-pension employee benefits is paid by the Province and therefore is not included in the financial statements.

Notes to Financial Statements

December 31, 2013

8. RELATED PARTY TRANSACTIONS (cont'd)

(b) Pension Plan

The Agency's full-time employees participate in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU-PF), which are defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU-PF, determines the Agency's annual payments of the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the agency. The Agency's annual payments of \$4.3 million (2012 – \$4.0 million), are included in salaries and benefits in the Statement of Operations and Change in Net Assets.

(c) Other

As a result of the relationship of the Agency with the Province, the following related party transactions exist:

- (i) The Agency received revenue of \$2.4 million (2012 – \$2.5 million) from the Ontario Infrastructure and Lands Corporation for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients.
- (ii) The Agency received revenue of \$2.4 million (2012 – \$2.8 million) from the Ministry of the Environment for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients. In addition, the Agency received \$0.1 million (2012 – \$0.3 million) for the Emergency Preparedness Funding.
- (iii) The Agency received revenue of \$0.9 million (2012 – \$0.5 million) from the Ministry of the Northern Development and Mines for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients.
- (iv) The Agency has a \$120 million loan receivable with Ontario Infrastructure and Lands Corporation, as described in note 3c.
- (v) The Agency relies on the Province to process its payroll and administer its benefits, and to obtain some internal audit and legal services. The Province absorbs some of these administrative costs.
- (vi) The Agency has a \$1.5 million (2012 – \$1.4 million) accounts payable to the Ministry of the Environment for rent proceeds it collects for a property, net of realty taxes paid, managed on behalf of the Ministry.





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