



ONTARIO CLEAN WATER AGENCY
AGENCE ONTARIENNE DES EAUX

2019

ANNUAL REPORT

Table of Contents

Message From the Chair and CEO	3
Agency Overview	5
Governance and Accountability	7
Overview of 2019 Achievements	9
Measuring Performance - 2019 Results	16
Management Analysis of Financial Results.....	24
Management's Responsibility for Financial Information	27
2019 Financial Statements.....	30



MESSAGE FROM THE CHAIR AND CEO

2019 was another successful year for OCWA, with the Agency achieving all of the key goals set out in its three-year business plan and long-term strategic plan.

OCWA's vision is to be "a trusted world leader in water" with a mission to demonstrate service excellence through the delivery of safe, reliable and cost-effective clean water. Throughout this report you will read about some of the initiatives included in the Agency's strategic plan that are helping us to achieve these goals.

The Agency maintained its history of strong financial performance, with total revenues continuing to increase year over year. By focusing on delivering excellent client service, we were able to increase our annual revenue from \$205 million in 2018 to \$213.6 million in 2019 and exceed our net income target by 12.5% (\$9.6 million as compared to a plan of \$8.53 million).

In addition to meeting our revenue and net income targets for the year, we successfully retained all but two small client contracts up for renewal in 2019, including one of our largest clients, the Region of Waterloo. We also welcomed a number of new clients to the Agency and expanded the scope of services that we provide to many of our existing clients.

Much of our success comes from understanding our clients' needs and finding solutions to address their concerns. Forums like our Client Advisory Board provide an opportunity for decision makers in client

municipalities to provide direct feedback to our Executive Management Team on what is working and how we can better serve our client communities. Likewise, our Operations and Business Development teams in the field meet regularly with clients to understand what issues they are facing with respect to their local water and wastewater systems and determine how OCWA could help them respond to the issues.

OCWA's continued strong financial performance has enabled the Agency to invest in programs like our Business Transformation Program, which will provide OCWA employees with information technology tools and other supports to do their jobs more efficiently and better support the Agency's clients, and our Asset Stewardship Quality Management System, which enables us to help clients develop comprehensive asset management plans for their water and wastewater systems. These programs and others are helping to expand OCWA's value to clients well beyond the delivery of operations and maintenance services.

Other key areas of focus include improving the efficiency of our business processes, supporting the Province and the public, and ensuring the safety and well-being of our employees. Throughout 2019 we made significant progress in all of these areas. In keeping with our commitment to provide a safe, healthy, respectful and representative workforce for our employees, we enhanced our health and safety program, developed a long-term Diversity and Inclusion strategy that will be implemented in the coming years, and provided First Nations cultural safety training to staff from across the organization.

We also made continued improvements in the way that we manage the procurements of



goods and services for the Agency and its clients, expanded the scope of our I Don't Flush and OneWater education and outreach programs, and continued our support for First Nations communities in Ontario, completing a remote monitoring pilot project and working with client communities to help them in maintaining their water and wastewater systems.

OCWA's municipal clients are dealing with a number of pressing concerns, including the cost of replacing or upgrading aging infrastructure and the impact of climate change on their water and wastewater systems. Our local operations teams are supported by specialized teams of experts providing a wide range of services, including asset management, process optimization, energy management, resource recovery and capital delivery. These expert teams are helping to address client concerns by bringing forward flexible solutions that support the long-term sustainability and resilience of their systems and address their changing needs.

Sustainability and resilience solutions that OCWA staff worked with clients to implement this past year include waste diversion and resource recovery projects that use wastewater biosolids and concentrated organic waste, such as source separated organics, to enhance and generate biogas for productive use, and conducting energy management and process optimization studies to identify opportunities to reduce operating costs and improve the performance of client facilities. These and other initiatives not only help our clients to save money, reduce waste and better maintain their water and wastewater infrastructure, but also support the broader objectives of the Ontario government to mitigate the impacts of climate change and support the development

of a circular economy, in which waste products are repurposed for beneficial use.

OCWA's ongoing focus on delivering exceptional client service has enabled us to maintain our position as a leader in the water industry, both in Ontario and beyond. This could not have been achieved without our expert staff and management team. We commend them for their hard work and thank them for their ongoing commitment to our clients and the people of Ontario. We would also like to thank the Agency's Senior Leadership Team and our Board of Directors for their vision, leadership and direction.

At the time this letter was written the Province of Ontario and the rest of the world were dealing with the response to the COVID-19 pandemic emergency. Despite the challenges that we anticipate facing in 2020 due to the pandemic, we are confident that by continuing to implement the strategies and initiatives set out in our long-term strategic plan we will ensure that the Agency has the knowledge and capacity to meet all of our clients' needs both now and in the future.



Joe Pennachetti
Chair, OCWA Board of Directors



Nevin McKeown
President and Chief Executive Officer



AGENCY OVERVIEW

OCWA was established in 1993 as an agency of the Province of Ontario with a mandate to provide water, wastewater and other related services to clients in a manner that protects human health and the environment and encourages the conservation of water resources. The Agency's core business is the operation and maintenance (O&M) of water and wastewater treatment facilities and their associated distribution and collection systems on behalf of municipalities, First Nations communities, institutions, and private sector companies. Complementing OCWA's O&M expertise, the Agency provides a comprehensive range of engineering and other technical and advisory services to water and wastewater system owners.

OCWA is the largest operating authority in Ontario, managing close to 800 water and wastewater treatment facilities and associated systems and providing other technical and advisory services on behalf of more than 180 clients. OCWA operates facilities ranging in size from small wells and pumping stations to large-scale urban water and wastewater systems. In addition to operations and maintenance, which is the Agency's core business, OCWA offers clients a broad array of related functions, including engineering, training and other technical and advisory services such as process optimization, energy management and asset management.

OCWA utilizes a shared service structure whereby staff and resources are shared amongst several municipal clients to ensure geographic optimization. OCWA's typical hub

structure provides economies of scale that lessen operation and maintenance costs for client municipalities. Clients also benefit from sharing operations, management and administration staff and specialized support services.

OCWA has an unmatched ability to deliver excellent compliance and safety performance across diverse regions, technologies and facility sizes, treating water and wastewater for municipalities with populations as large as 1.4 million in the Region of Peel and as small as 2,400 in Moose Factory. Over 90 percent of OCWA employees are directly involved in developing, selling and delivering customer solutions and are among the most knowledgeable and experienced in the water and wastewater industry.

Given OCWA's role as a public Agency, the protection of public health and safety is the Agency's 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.

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. OCWA is helping to ensure that clients make well informed decisions regarding infrastructure investments by working with them to develop comprehensive water and wastewater asset plans that prioritize their infrastructure needs and strengthen their resilience to the impacts of climate change for the next decade and beyond. OCWA also helps clients to access federal and provincial funding opportunities

that will allow them to put those plans into action.

Municipalities, and the industry as a whole, are looking for better, more sustainable ways to manage their water and wastewater systems. OCWA works with clients to enhance the resilience of their infrastructure, develop efficient operation and maintenance programs, reduce energy use and reduce the production of harmful greenhouse gases through best management practices and technology (e.g. turning biosolids from wastewater treatment plants, along with food and other organics, from waste products into future energy sources).

The Agency is also innovating in the area of information management by developing and implementing integrated information technology systems to automate the collection, analysis and communication of water and wastewater facility information from internet-connected sites.

OCWA's success with these initiatives will ensure that we continue to provide the highest level of service to the Agency's clients, while helping the Province protect the health of Ontario residents and conserve and sustain our water resources for present and future generations.

VISION AND MISSION

OCWA's vision is to be *"a trusted world leader in water"* with a mission to demonstrate service excellence through the delivery of safe, reliable and cost-effective clean water.

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 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.

GOVERNANCE AND ACCOUNTABILITY

GOVERNANCE

OCWA is committed to implementing governance best practices at all levels of the organization to enhance transparency and accountability to clients, the government and the citizens of Ontario. The Agency is governed by a Board of Directors ("the Board"). Members of OCWA's Board are appointed by the Lieutenant-Governor-in-Council on the recommendation of the Premier. The Board follows best practices in corporate governance, including director orientation and ongoing education, holding regular meetings and strategic planning sessions, as well as adhering to the Agency's Board Code of Conduct.

A Board competency matrix has been established to ensure that the skills of Board members are in alignment with the long-term business strategy of the Agency. OCWA's Board is comprised of a diverse group of individuals with a range of competencies and backgrounds, enabling the Board to effectively fulfill its stewardship responsibilities. In 2019, 50 percent of the Agency's Board members were women. Collectively, the Board has expertise in both the private and public sector, as well as in the management of municipal corporations and utilities.

The Board is responsible for overall Agency affairs, including setting strategic direction, monitoring performance and ensuring appropriate systems and controls are in place for the proper administration of the Agency in accordance with OCWA's governing documents. The Board is accountable to the

Minister of the Environment, Conservation and Parks, who is accountable to the Provincial Legislature.

OCWA's Board has established several standing committees to assist them in fulfilling their corporate governance and oversight responsibilities. Current committees include the Audit and Finance Committee; the Business Transformation and Technology Committee; the Compliance and Operational Risk Management Committee; the First Nations Committee; and the Human Resources, Governance and Nominating Committee. Temporary task forces are also established as deemed necessary by the Board to provide guidance to management and oversee specific Agency priorities and initiatives.

ACCOUNTABILITY

OCWA demonstrates accountability to the government and citizens of Ontario in a number of ways, including:

- Meeting the requirements of appropriate regulatory authorities (Ministry of the Environment, Conservation and Parks, Ministry of Labour, Medical Officer of Health, etc.) for OCWA-operated facilities;
- Providing facility reports to clients for OCWA-operated municipal water treatment facilities;
- Generating an Annual Report, submitted for approval to the Minister of the Environment, Conservation and Parks, for tabling in the Provincial Legislature, publicly available to all Ontarians online at www.ocwa.com;
- Producing an annual three-year Business Plan, including performance measures, submitted for approval to the Minister of the Environment, Conservation and Parks

annually and made available to all Ontarians online at www.ocwa.com;

- Supporting annual audits of OCWA's financial statements and periodic Value for Money Audits conducted by the Office of the Auditor General of Ontario;
- Providing accessibility to Agency records under the *Freedom of Information and Protection of Privacy Act*;
- Complying with applicable legislation and Ontario Public Service policies and directives;
- Utilizing an Enterprise Risk Management program to identify and assess business and operational risks; and
- Implementing a multi-year Diversity and Inclusion Strategy.

BOARD DIRECTORS, TERMS AND COMPENSATION

Including the Chair, OCWA had eight Board Directors at the end of 2019.

Total Director compensation for 2019 was \$47,650. Director compensation includes per diem payments for preparation for and attendance at Board, Committee and Task Force meetings, along with any time spent working on behalf of the Agency.

Board members and terms as of December 31, 2019, along with total per diems paid to each Director in 2019, were as follows:

Director	Date First Appointed	Current Term Expiry	2019 Per Diems
Joseph Pennachetti (Chair)	February 8, 2018	February 7, 2021	\$21,175
Richard Austin	November 13, 2019	November 12, 2022	\$1,400
Melanie Debassige	October 23, 2013	October 22, 2022	\$1,900
Debbie Korolnek	March 8, 2017	March 7, 2020	\$6,000
Sandra Odendahl	August 17, 2017	August 16, 2020	\$5,900
Debra Sikora	January 15, 2014	January 14, 2020	N/A – Ontario Public Service employee
Michael Thorne	June 19, 2013	October 24, 2022	\$4,000
Mitchell Zamojc	April 20, 2016	May 8, 2022	\$7,275

:



OVERVIEW OF 2019 ACHIEVEMENTS

OCWA worked hard to meet the objectives of the Provincial government throughout 2019.

Annual mandate letters from Ministers to board-governed agency chairs outline broad expectations and priorities for the coming year. Agencies are required to report on achievements related to the mandate letters in their annual reports. For the current reporting period, the Ontario government temporarily suspended the mandatory requirement for mandate letters until the end of the 2018-19 accountability cycle, as the government established an Agency Review Task Force to assess mandates and expectations for all provincial agencies. In the absence of a mandate letter for 2019, OCWA maintained frequent communication with the Ministry of the Environment, Conservation and Parks throughout the year to avert any issues and ensure that OCWA was acting in accordance with the Ministry's expectations and priorities.

An overview of some of the Agency's key achievements is included below.

DRIVING SUSTAINABILITY THROUGH ASSET MANAGEMENT

Water and wastewater treatment, collection and distribution systems are some of the most significant infrastructure assets owned by local municipalities. Implementing proper asset management practices can help municipalities to ensure that infrastructure expenditures are managed efficiently and that their systems are

continuously maintained in a state of good repair.

Recognizing the importance of proper municipal infrastructure management practices, the provincial government is requiring all Ontario municipalities to have comprehensive asset management plans for critical infrastructure in place by 2021. OCWA is well prepared to assist its client municipalities, the majority of which are small and rural, in meeting this requirement.

In recent years OCWA has dedicated significant time and resources to creating a comprehensive asset management program to assist clients in developing effective, evidence-based, asset management plans for their water and wastewater systems. Utilizing the Agency's decades of experience serving Ontario municipalities, OCWA has developed asset management standards, systems and maintenance practices that are on the leading edge of the water industry. This includes the Agency's Work Management System, which enables OCWA to better capture and analyze information on client infrastructure costs and asset performance.

Basic asset management training was provided to all OCWA managers and employees in 2019, with 86 percent having completed the training at the end of the year. This training will be also provided to new employees joining the Agency as part of their orientation. In addition to the basic training, staff directly responsible for selling and delivering asset management services to clients will also be required to complete more comprehensive asset management training courses, which will be available starting in 2020.

PROMOTING MUNICIPAL CONSERVATION AND WASTE DIVERSION INITIATIVES

Helping clients to maximize efficiency and enhance the resiliency of their water and wastewater infrastructure is one of the most important ways in which OCWA delivers added value. Over the past few years, OCWA has been working with clients and other stakeholders to achieve the combined goals of energy savings and greenhouse gas reduction.

In 2019, the Agency wrapped up its highly successful energy Pay for Performance Program. Through this program, which was implemented through the Independent Electricity System Operator (IESO) Conservation Fund, 49 projects were rewarded with incentive payments for achieving demonstrated energy savings. In total, 49,599 MWh of cumulative annual energy savings were achieved over the four-year life of the program.

OCWA is also supporting the municipal and provincial goal of increasing organics diversion by supporting the development and implementation of resource recovery facilities that use wastewater biosolids and concentrated organic waste, such as source separated organics, to enhance and generate biogas for productive use (this process is referred to in the industry as “co-digestion”).

Work continued on the Stratford Water Pollution Control Plant optimization project, in which OCWA is partnering with the City of Stratford, throughout 2019. When the project is completed, compost and food waste from the surrounding area will be added to the wastewater biosolids from the plant to increase the production of biogas that can then be cleaned and used to replace natural gas. The resulting clean biogas will then be fed back into the local gas distribution system. This “net

zero” initiative will produce a renewable energy source, divert 19,000 tonnes of waste from landfill annually and result in cost savings and a significant reduction in greenhouse gas emissions for the City of Stratford.

In addition to the Stratford project, OCWA is working with other municipal clients to conduct feasibility studies for future co-digestion and resource recovery initiatives that promote a circular economy in which the resources contained in waste are recovered. To date, the Agency has completed co-digestion feasibility studies for the Town of Petawawa and the City of Belleville, with two more studies underway for the City of Cornwall and the Township of Georgian Bluffs.

OCWA is also working with clients to improve their capacity to prevent, withstand, respond or adapt to, and recover from disruptions due to climate change. In an effort to better understand and respond to the specific challenges that clients are facing with regard to the resilience of their infrastructure, OCWA has begun collecting and reviewing operational data and other information from across the Agency and a variety of external industry stakeholders. This information will be used to continue to develop the Agency’s Climate Resiliency Strategy, which will guide the Agency and its clients in incorporating a climate adaptation and resiliency focus into future facility optimization and capital improvement projects.

TRANSFORMING INFORMATION SYSTEMS AND PROCESSES

Over the past few years, OCWA has invested significantly in enhancing the Agency’s information technology systems and refining the Agency’s business processes. The Agency’s Business Transformation Program (BTP), which was initiated in late 2017, aims to



enhance the Agency's client service capacity and improve performance with an extensive, secure and resilient information network that can be accessed when and where needed across the province. Due to the broad scope of the changes to be implemented, the program is being implemented using a phased approach, with the most critical undertakings implemented first.

Key activities undertaken during the first phase of BTP included:

- Improving the Agency's budgeting and financial processes, upgrading to a new cloud-based budgeting solution and upgrading the existing Enterprise Resource Planning system, which is used to support the majority of the Agency's financial activities;
- Developing and implementing a quality management framework for asset management and improving asset management skills across the Agency through asset management training;
- Implementing a technology improvement and sustainment program that delivers priority information and SCADA (Supervisory Control and Data Acquisition) technology initiatives to improve the overall resiliency, efficiency and security of OCWA's information technology infrastructure; and
- Implementing an information, content and collaboration management system while developing an authoritative repository for OCWA's business processes, data, information, structured hierarchies, documents, knowledge and intelligence across the Agency.

As work on the first phase of BTP approached completion at the end of 2019, planning was

underway for the roll-out of the second phase of the program. This phase, which includes the implementation of new Human Resources Information Management and Health, Safety and Compliance Management solutions for the Agency, will commence starting in 2020.

ENHANCING OUR PROCUREMENT PROCESSES

Providing the best value for clients is a key component of OCWA's shared service model. As the largest water and wastewater service provider in Ontario, OCWA is able to leverage the Agency's significant purchasing power to deliver best value to clients, procuring a wide variety of goods and services, from chemicals to insurance to equipment and machinery, at competitive prices on their behalf.

OCWA is always looking to improve the Agency's business processes as part of our ongoing commitment to our clients. This includes regularly reviewing and updating our procurement practices. Recent improvements include:

- Incorporating procurement planning as a part of the Agency's annual budgeting process to take maximum advantage of the Agency's economies of scale and obtain the most competitive pricing by grouping like purchases together where possible;
- Implementing new procurement templates to streamline the Agency's procurement processes, which has resulted in a reduction in the time and effort required by both operations and procurement staff;
- Updating the Agency's chemical procurement process, including routinely monitoring market prices to determine if short or long-term contracts would be

more suitable for upcoming procurements; and

- Developing a Supplier Relationship Management Program to improve communication between OCWA and its suppliers.

PROTECTING THE ENVIRONMENT THROUGH EDUCATION AND OUTREACH

OCWA's education and outreach programs educate the public about the value of water and the importance of protecting the environment.

The "I Don't Flush" campaign encourages responsible use of municipal wastewater collection systems by educating the public about the impact of disposing non-flushable materials down the toilet or drain. The campaign features a website (www.idontflush.ca), Twitter feed (@idontflushnews), Facebook page (idontflush.ca) and public service announcements.

Four phases of the I Don't Flush campaign have been introduced to date. The first phase focused on returning unused or expired medications to pharmacies, as opposed to flushing them down the toilet or drain – or throwing them into the garbage. The second phase focused on fibrous personal hygiene products, such as wipes, dental floss, and sanitary products. Phase three focused on fats, oils and grease – or FOG – which, if poured down the drain, can cause significant damage to both household plumbing and municipal wastewater systems. The fourth and final phase of the program, which was launched at the end of 2019, combines messaging from previous campaigns into a wrap-up I Don't Flush: "Trash Your Bad Habits – Not Your Drain".

The OneWater Education Program teaches the value of water to students in grade eight by providing activity-based lessons on water and the water cycle that align with the Ontario grade eight science curriculum. 2,800 students have participated in the program since it was first launched.

Additions to the OneWater program include the new "Water from an Indigenous Perspective" module, which explores the sacred relationship between Indigenous people and water and guides students through lessons and activities shaped by their view of water as a precious resource, and a new biosolids module, "Being Resourceful with Resources", that takes the traditional water cycle a step further and introduces students to ways biosolids can be used to lower our collective environmental footprint. These modules were piloted in the spring of 2019 and will be rolled-out more broadly in 2020 following revisions to address feedback from the pilots.

WORKING WITH FIRST NATIONS COMMUNITIES TO IMPROVE AND MAINTAIN THEIR WATER AND WASTEWATER SYSTEMS

OCWA has a long history of working with First Nations communities in Ontario. Key services that OCWA provides to First Nations communities include:

- Supporting First Nations clients in the management, operation and maintenance of their water and wastewater systems, with the First Nations taking the lead and OCWA providing ongoing support;
- Assisting First Nations communities in ensuring the long-term sustainability of their water and wastewater systems through the implementation of process

optimization, asset management and energy management initiatives;

- Providing operational training to First Nations; and
- Providing emergency response services to First Nations communities when requested.

In 2019, OCWA worked to implement the Agency's First Nations strategy, which outlines how OCWA will establish partnerships with First Nations and First Nations organizations to support the development and implementation of sustainable water solutions in First Nations communities. A key focus of OCWA's First Nations strategy is to strengthen relationships with the Agency's First Nations partners through trust and open dialogue about First Nations history, experiences, and water needs.

Activities undertaken throughout the year included:

- Delivering Indigenous awareness and understanding sessions to Agency managers, staff and the Board of Directors;
- Piloting the new "Water from an Indigenous Perspective" module for the Agency's OneWater education program in several schools;
- Hosting a session attended by several First Nations leaders, including Autumn Peltier, water advocate and chief water commissioner for the Anishinabek Nation, and members of OCWA's Young Professionals Network, to discuss water issues in First Nations communities; and
- Working to strengthen relationships with OCWA's First Nations stakeholders.

Other planned initiatives for 2019 included the establishment of a First Nations Advisory Circle with representatives from a wide range of

OCWA First Nations client communities. The goal of the Advisory Circle was to establish an open forum for raising the Agency's cultural awareness, share information on the issues facing First Nations communities in Ontario and establish an action plan to address identified issues. The first meeting of the Circle was scheduled for November, 2019 but was deferred to 2020 due to scheduling conflicts for invited participants.

BUILDING A DIVERSE AND INCLUSIVE CULTURE

OCWA's success is built upon having a diverse and inclusive workforce that brings different experiences, backgrounds, and perspectives to create more innovative solutions. Diverse teams are more representative of the customers that the Agency serves. By strengthening the Agency's focus on diversity and inclusion, OCWA is working to create a healthier, more respectful and representative workforce at all levels of the organization.

Working closely with the Canadian Centre for Diversity and Inclusion, OCWA Human Resources staff held a number of working sessions and worked collaboratively with staff from across the organization to identify overarching Diversity and Inclusion goals for the Agency and determine how best to meet those goals. The resulting Diversity and Inclusion Strategy provides a roadmap for how OCWA will achieve its Diversity and Inclusion objectives. The Strategy, which will be implemented over a number of years, includes key actions and accountabilities, timelines for completion and performance metrics to ensure that objectives are met.

Initial elements of the strategy implemented in 2019 include:

- Providing unconscious bias training to all OCWA managers;

- Completing cultural competence development plans and providing coaching sessions to the Agency's Executive Management Team and Regional Hub Managers;
- Developing a diversity and inclusion communications plan, including key messages for managers; and
- Developing a draft learning and development curriculum.

Additional diversity and inclusion initiatives will be implemented in 2020 and beyond.

EXPANDING OUR LEADERSHIP CAPABILITY

In recognition of the role that strong leadership plays in meeting organizational objectives, OCWA is working hard to enhance the Agency's leadership capacity and ensure continuity across management roles. In 2018, the Agency introduced two new programs (Aspiring Manager and Aspiring Leader) for employees and managers with an interest in and the potential to move into management and senior leadership positions. The programs provide participants with opportunities to establish relationships with senior leaders across the Agency and develop their management and leadership skills.

The first participants completed each of the programs at the end of 2019. In 2020, OCWA Human Resources staff will work with Agency leaders and program participants to evaluate the results of the programs, determine what worked well, identify opportunities for improvement, including reviewing the programs from a diversity and inclusion perspective, and prepare for the roll-out of the second round of the programs.

In addition to the Agency's leadership development programs, OCWA has a well-

defined process for ensuring that qualified successors are available to fill critical Agency positions as they become available. This includes analyzing and scoring the potential vacancy risk for each management position in the Agency, assessing the broad impact of each position in the organization, developing and reviewing action plans for risk critical Agency positions and implementing succession programs for critical positions, including learning plans.

Combined, these initiatives are helping to ensure that OCWA has the future leadership capacity to meet the needs of the Agency's clients and successfully deliver on the Agency's long-term strategies.

KEEPING OUR EMPLOYEES SAFE AND HEALTHY

Ensuring the health and safety of OCWA employees and everyone that works with the Agency continues to be an ongoing priority for OCWA. Over the past few years the Agency has worked hard to improve its health and safety program and develop an ingrained safety culture.

Priorities for 2019 included:

- Promoting the regular use of tailgate meetings prior to starting any new work to identify and mitigate health and safety risks;
- Working with regional staff to enhance the Agency's supervisor spot-check initiative, which involves having supervisors performing a series of spot-checks at facilities to look specifically at health and safety compliance and develop and implement correction plans;
- Introducing and tracking a new leading performance indicator pertaining to workplace inspections;

- Enhancing the Agency's Contractor Safety program to ensure that managers and staff are aware of their roles and responsibilities with regard to contractors working in OCWA workplaces; and
- Working to move the Agency into a total prevention mindset.

The positive impact that these initiatives have had on the Agency's safety culture was highlighted when OCWA was selected by the Canada's Safest Employers Awards as the 2019 recipient of the Gold Award for Canada's Safest Employers in the "Public/Non-profit Sector."

The Canada's Safest Employers Awards program recognizes organizations from across Canada with outstanding accomplishments in promoting the health and safety of their workers. Organizations are judged on a wide range of occupational health and safety elements, including employee training, occupational health and safety management systems, incident investigation, emergency preparedness and an emphasis on innovative health and safety initiatives. OCWA was honoured to have been selected to receive this award.

ENHANCING EMPLOYEE ENGAGEMENT

OCWA has identified maintaining an engaged and motivated workforce as a key component of its overall business strategy, recognizing the strong correlation between employee engagement, productivity and organizational success. The Agency is committed to taking action to increase engagement and commitment across all levels of the organization.

Agency leaders agree that if staff are consulted, are heard, and appropriate action is taken, engagement levels will increase. As

such, OCWA has worked hard to ensure that as many employees as possible participate in the Agency's annual employee engagement survey. Hearing what employees have to say is just the first step in increasing engagement levels. Acting on their feedback is the crucial next step.

Throughout 2019, Agency managers and Human Resources staff worked hard to improve the Agency's performance in key areas identified by staff in the 2018 Ontario Public Service Employee Experience survey, including hiring practices, recognition and enterprise-level communication. In 2020, the Agency will evaluate the results of the Employee Engagement survey conducted in late 2019 to determine whether progress has been made in these priority areas, identify additional opportunities for further improvement and develop plans to address any identified areas of concern for Agency employees.

MEASURING PERFORMANCE - 2019 RESULTS

STRATEGY 1 – SUPPORTING OUR CLIENTS IN DEVELOPING AND MAINTAINING SUSTAINABLE, RESILIENT, COST-EFFECTIVE WATER AND WASTEWATER SYSTEMS

DRIVING SUSTAINABILITY THROUGH ASSET MANAGEMENT

GOAL

- Help clients to develop comprehensive water and wastewater infrastructure asset management plans, ensuring the long-term sustainability of their systems

PERFORMANCE MEASURES

- Asset management training provided to all OCWA operations staff by the end of 2019
- Asset management tools and solutions that meet provincial asset management requirements and help clients transition from age-based asset management to evidence-based asset management planning implemented for municipal clients, generating total revenue of \$500,000 by 2021

YEAR-END RESULTS

- 9-hour introductory online asset management course rolled-out to all OCWA staff; 86% of staff had completed the course as of the end of 2019
- Development of more comprehensive asset management training for staff directly responsible for the sale and delivery of asset management services underway, for roll-out in 2020
- Asset Stewardship Quality Management System (ASQMS) Framework developed and tested in two pilot facilities
- Asset Management business plan and sales strategy developed
- Moving forward with delivering Asset Management services to clients; \$165,000 in revenue generated to date as of the end of 2019

PROMOTING MUNICIPAL CONSERVATION AND WASTE DIVERSION INITIATIVES

GOAL

- Help clients to conserve energy, save money and reduce waste by implementing energy savings initiatives and harnessing the energy potential of biosolids and other organic waste

PERFORMANCE MEASURES

- Increase the total energy saved by OCWA clients to 49,000 MWh by the end of 2019
- Energy monitoring and targeting (M&T) equipment installed in client facilities in 2018 results in a 5% reduction in energy usage in those facilities by the end of 2019
- Implementation of the Stratford Net Zero Project, that includes co-digestion and production of renewable natural gas, results in greenhouse gas reduction of 49,000 tons of carbon dioxide equivalent by the end of the first year that the facility is in operation
- Five or more feasibility studies for co-digestion and energy recovery initiatives conducted promoting the circular economy that result in two or more project implementations by 2021

YEAR-END RESULTS

- The OCWA/Independent Electricity System Operator (IESO) pay for performance energy savings program was completed in December 2019; in total, the program resulted in 49 projects completed with 49,599 MWh of savings (4-year rolling cumulative annual energy savings)
- Four M&T projects implemented in 2019; data analysis is being carried out, with baseline reports due in 2020
- Progress on the Stratford Net Zero Project continued throughout 2019, with an estimated completion date in the second quarter of 2021
- Three co-digestion and energy recovery feasibility studies had been completed for OCWA clients by the end of 2019, with three more studies underway or awaiting approval; projects resulting from two of the completed studies were underway or awaiting approval at the end of the year

STRATEGY 2 – DRIVING EFFICIENCY THROUGH BUSINESS PROCESS IMPROVEMENTS

TRANSFORMING OUR INFORMATION SYSTEMS AND PROCESSES

GOAL

- Enhance the Agency's Information Technology systems and refine the Agency's business processes through implementation of the Business Transformation Program

PERFORMANCE MEASURE

- Enterprise Resource Planning system implementation complete by the end of 2019, resulting in a 5-10% reduction in the time required to complete financial administration tasks
- Changes implemented beginning in 2018 (mobile application for work orders and automated process for annual client capital recommendations) result in a 5-10% reduction in the time required to manage work orders by the end of 2019
- Supervisory Control and Data Acquisition (SCADA) network coverage expanded to include 90% of the province by the end of 2021, resulting in improved client coverage and service levels

YEAR-END RESULTS

- New budgeting solution implemented in July, 2019; updated ERP system implemented in January, 2020; financial process review to be completed in 2020 following the transition to the new ERP system; 5-10% reduction in the time required to complete financial administration tasks on track to be achieved by 2021
- Development and implementation of a mobile application for work orders continued throughout 2019, with acceptance testing being completed in Q4; an automated process for annual client capital recommendations was also developed and tested in 2019; full roll-out of the mobile application and the automated client capital recommendation process will be completed in 2020, with the 5-10% reduction in the time required to manage work orders on track to be achieved by 2021
- 22 new SCADA panels were installed at new and existing sites in 2019, increasing total coverage to 77% of the province; installation of an additional 40 panels is planned for 2020

ENHANCING OUR PROCUREMENT PROCESSES

GOAL

- Optimize the Agency's procurement processes to deliver best value to OCWA's clients

PERFORMANCE MEASURE

- Procurement process improvements implemented in 2018 (revised procurement planning process, chemical procurement changes and development of a Supplier Relationship Management program) result in a 10% reduction in the time required to procure goods and services by the end of 2019

YEAR-END RESULTS

- Achieved a 10% reduction in time required to procure goods and services
- Key procurement initiatives undertaken in 2019 include:
 - Rolling out a revised procurement planning process;
 - Implementing recommended chemical procurement changes;
 - Rolling out new proposal templates;
 - Delivering Procurement and Construction Project training seminars to Operations Staff in the Regional Hubs; and
 - Establishing nine new Vendor of Record arrangements with 74 vendors.

STRATEGY 3 – SUPPORTING OUR CLIENT COMMUNITIES AND THE PEOPLE OF ONTARIO

PROTECTING THE ENVIRONMENT THROUGH EDUCATION AND OUTREACH

GOAL

- Enhance public understanding and appreciation of the value of water and the environment by promoting and enhancing the OneWater and “I Don’t Flush” programs

PERFORMANCE MEASURES

- Continue to promote OneWater in existing client communities, with a total of 2,800 students completing the OneWater program by the end of the 2018/19 school year, with 80% of students saying they understand more about how water/wastewater treatment works in their community as a result of the OneWater program
- OneWater Biosolids unit piloted in the spring of 2019, with full roll-out of the module in the fall of 2019
- Refreshed I Don’t Flush campaign re-launched in 2019 with three current partners and additional partner on board

YEAR-END RESULTS

- Approximately 600 students participated in the OneWater program in the 2018/19 school year, bringing the total number of students to participate in the program since inception to 2,800
- OneWater Biosolids module piloted in May 2019; full roll-out of the module delayed to 2020 to provide time to incorporate required revisions and updates based on pilot
- While a formal survey for the 2019/20 school year has not yet been completed, previous surveys have resulted in more than 80% of students saying that they understand more about water and wastewater.
- Phase 4 of the I Don’t Flush campaign launched in October 2019 with six municipal partners on board (three existing and three new partners)

WORKING WITH FIRST NATIONS COMMUNITIES TO IMPROVE AND MAINTAIN THEIR WATER AND WASTEWATER SYSTEMS

GOAL

- Support the development of sustainable water and wastewater solutions, including effective infrastructure management, for First Nation communities

PERFORMANCE MEASURE

- First Nations Advisory Circle established in 2019 and an action plan developed to address issues identified by the Advisory Circle

YEAR-END RESULTS

- Inaugural First Nations Advisory Circle meeting was initially scheduled for November, 2019; meeting was deferred to 2020 due to scheduling conflicts for invited participants

STRATEGY 4 – FOSTERING A CULTURE OF ENGAGEMENT, INCLUSION, SAFETY AND WELLNESS

BUILDING A DIVERSE AND INCLUSIVE CULTURE

GOAL

- Make OCWA a welcoming and inclusive place to work by addressing identified diversity and inclusion gaps and promoting the benefits of a diverse workplace

PERFORMANCE MEASURE

- Develop a multi-year diversity and inclusion strategy and action plan to address findings by Q3, 2019

YEAR-END RESULTS

- Diversity and inclusion strategy developed and approved by the Board of Directors in October 2019
- Initial elements of the strategy implemented in 2019:
 - Provided unconscious bias training to all OCWA managers
 - Cultural competence development plans completed and coaching sessions provided to the Agency's Executive Management Team and Regional Hub Managers
 - Communications plan developed, including key messages for managers
 - Draft learning and development curriculum developed

EXPANDING OUR LEADERSHIP CAPABILITY

GOAL

- Enhance our leadership capacity and ensure continuity across management roles

PERFORMANCE MEASURE

- Year-over-year increase in the percentage of key positions filled according to pre-determined succession plans/identified high potentials, with a target for 2019 of 80 percent or higher

YEAR-END RESULTS

- 19 key positions were filled in 2019
 - 4 positions had no identified successors
 - Of the remaining 15 positions, 12 were filled with identified successors (80%)

KEEPING OUR EMPLOYEES SAFE AND HEALTHY

GOAL

- Develop an ingrained safety culture within OCWA

PERFORMANCE MEASURES

- Year-over-year reduction in the Agency's Recordable Incident Rate (RIR), with a target for 2019 of 1.7 or lower
- Year-over-year reduction in the Agency's Lost Time Injury Rate (LTIR), with a target for 2019 of 0.44 or lower

YEAR-END RESULTS

- 2019 year-end RIR was 0.77 (below the target of 1.7 and lower than the 2018 year-end RIR of 1.09)
- 2019 year-end LTIR was 0.11 (below the target of 0.44 and lower than the 2018 year-end LTIR of 0.33)

ENHANCING EMPLOYEE ENGAGEMENT

GOAL

- Improve the Agency's level of employee engagement

PERFORMANCE MEASURE

- Year-over-year improvement in the Agency's employee engagement index, with a target for 2019 of 72 or higher

YEAR-END RESULTS

- The 2019 Ontario Public Service (OPS) Employee Experience Survey was released on October 23 and closed on November 8; OCWA's response rate was 64%; Survey results to be reviewed and analyzed in 2020 after they are received from the OPS

MANAGEMENT ANALYSIS OF FINANCIAL RESULTS

OVERVIEW

2019 was another year of positive financial results for OCWA. The Agency realized a Net Income of \$9.6 million, an increase of 31.3 percent when compared to 2018, and well ahead of the plan for the year. Contributing factors included a 4.1 percent growth in Total Operating Revenue, which was driven by increases in Operations and Major Maintenance revenue, management of expenses and other cost savings, and higher investment income resulting from the stability of the Bank of Canada's overnight rate throughout the year. These increases were enough to offset a 3 percent increase in Total Operating Expenses resulting from a combination of salary and benefits increases for bargaining unit staff and other cost increases.

While the Agency was successful in increasing its Total Operating Revenue and Net Income in 2019, the unexpected emergence of the COVID-19 pandemic in 2020 may negatively impact the Agency's ability to meet its future growth targets, as client water and wastewater infrastructure projects and other projected sources of revenue growth may be delayed.

BALANCE SHEET

Net Assets increased to \$222.9 million, an increase of 4.5 percent as compared to 2018, due to the Agency's strong Net Income of \$9.6 million. Cash and short-term investments increased by \$7.9 million, primarily due to increased cash flows from investing and operating activities, which were partially offset by the purchase of capital assets.

Accounts receivable increased significantly in 2019 as compared to 2018 (an increase of \$8 million). Current accounts receivable represented 86 percent of the Agency's total accounts receivable outstanding at December 31, 2019 as compared to 92.8 percent at December 31, 2018. While this may appear significant, the change was primarily due to the Agency having issued a higher than normal number of invoices in late 2019 to enable a smooth conversion of the Agency's new Enterprise Resource Planning system, with payments of approximately \$3.7 million being received for 2019 invoices after December 31, 2019. When adjusted to reflect these payments, the Agency's current accounts receivable would actually represent 95 percent of the total accounts receivable outstanding at December 31, 2019, resulting in a slight improvement over 2018.

In 2017 the Agency's Board of Directors approved total capital and re-engineering expenditures of up to \$27.8 million for the Agency's Business Transformation Program (BTP) which was implemented beginning in 2018. The Agency's net tangible capital assets increased by \$3.5 million compared to 2018 as a result of increased BTP spending in 2019.

The Agency continues to meet its obligations without the use of debt, and as in prior years, had no outstanding financial obligations in 2019.

REVENUE

OCWA's long-term growth strategy continues to be focused on retaining current clients, expanding the scope of services provided to these clients and attracting new clients.

The Agency was successful in retaining clients whose contracts came up for renewal in 2019, signing several long-term contracts of five-to-ten years. In addition to retaining clients, the

Agency was successful in attracting new clients. OCWA will be pursuing other similar projects in the future and anticipates that this will be an important driver of future revenue growth.

Total Utility Operations Revenues increased by 4.4 percent as compared to 2018. This increase in revenue resulted from a combination of annual inflationary revenue increases included in client O&M contracts and additional new revenue resulting from the increased delivery of major maintenance services, as Agency clients upgraded aging water and wastewater infrastructure. Federal and provincial infrastructure funding through programs like the Clean Water and Wastewater Fund continued to enable municipalities to upgrade their water and wastewater infrastructure, with several of these projects contributing to an overall increase in Major Maintenance revenues of 3.7 percent.

The Agency's Other Business Revenue is comprised of revenue from the Engineering Services and Training Groups. In 2019 revenues from these services decreased by 34.4 percent when compared to the prior year, primarily due to projects being pushed out to 2020.

EXPENSES

Total Operating Expenses increased by 3 percent, driven by increases in salaries, benefits, and other operating expenses, which were partially offset by a reduction in the amortization of tangible capital assets.

Salary and Benefit increases of 2.7 percent are attributable to cost of living and merit increases for unionized staff, as set forth in the four-year collective agreements for Ontario Public Service employees which were ratified in 2017. Benefits contributions increased due to

increased salaries and increased employee future benefits obligations.

Some of the Agency's assets were fully amortized at the end of 2018, which were offset by BTP amortization, resulting in a 13.9 percent increase in amortization costs in 2019 as compared to 2018.

A 2.9 percent increase in other operating expenses was fueled by increased spending on commodities and other costs directly related to the operation of client facilities. These increases were partially offset by reduced spending on discretionary items such as travel and promotions.

Spending on infrastructure upgrades and other maintenance services resulted in a 3.1 percent increase in repair and maintenance costs as compared to 2018, with clients continuing to upgrade and repair their facilities.

Chemical costs are driven by price and usage. In 2019, chemical costs increased by 9.6 percent, driven by price increases and some client facilities using higher volumes. The Agency has established multi-year contracts with chemical suppliers, which reduce exposure to market volatility and chemical price fluctuations.

Insurance costs are driven by insurable values, revenues and claims history. In 2019, insurance costs increased by 6.2 percent due to premium increases, higher insurable values of upgraded facilities, and increased revenues impacting property and liability premiums respectively.

INVESTMENT INCOME

Investment income is comprised of income from short-term and long-term investments, overnight cash balances and loans receivable. Bank of Canada interest rates remained stable in 2019, allowing investments coming due in 2019 to be reinvested at interest rates in the 2 to 3 percent range, compared to retiring investments that were earning less than 2 percent. Given the improved interest rates and a moderate increase in the Agency's cash base, investment income increased by 23.2 percent as compared to 2018.

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, Conservation and Parks 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.



Nevin McKeown
President and Chief Executive Officer



Tristina Singh
Director, Finance (Acting)

Toronto, Ontario
July 9, 2020



INDEPENDENT AUDITOR'S REPORT

To the Ontario Clean Water Agency

Opinion

I have audited the financial statements of the Ontario Clean Water Agency (OCWA), which comprise the statement of financial position as at December 31, 2019 and the statements of operations and changes in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of OCWA as at December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of OCWA in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the OCWA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless OCWA either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing OCWA's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 OCWA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on OCWA's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause OCWA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Toronto, Ontario
July 9, 2020


Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

2019 FINANCIAL STATEMENTS

Statement of Financial Position as at December 31, 2019

	(in thousands of dollars)	
	December 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and short-term investments (note 3a)	53,352	45,410
Accounts receivable, net		
Municipalities and other customers (note 3b)	43,386	35,388
Ministry of the Environment, Conservation and Parks	34	169
Harmonized sales tax receivable	4,593	2,634
Prepaid Expenses	1,113	4,424
Current portion of investments receivable for water and wastewater facilities (note 2)	247	67
	102,725	88,092
Non-current assets:		
Investments in term deposits (note 3a)	23,761	32,386
Investments receivable for water and wastewater facilities (note 2)	51	98
Loan receivable - Ontario Infrastructure and Lands Corporation (note 3c)	120,000	120,000
Tangible Capital Assets, net (note 4)	11,535	7,988
	155,347	160,472
Total Assets	258,072	248,564
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	21,196	21,037
Current portion of employee future benefits (note 8a)	6,265	5,292
	27,461	26,329
Long-term liabilities:		
Employee future benefits (note 8a)	7,757	9,018
Net Assets	222,854	213,217
Total Liabilities and Net Assets	258,072	248,564

Commitments and Contingencies (note 5)(note 7)
see accompanying notes to financial statements

On behalf of the Board



Director



Director

Statement of Operations and Change in Net Assets for the year ending December 31, 2019

	(in thousands of dollars)	
	December 31, 2019	December 31, 2018
Utility Operations Revenues:		
Utility operations	212,611	203,716
Other Business	939	1,431
Total Operating Revenues	213,550	205,147
Operating Expenses:		
Salaries and benefits (note 8a and note 8b)	81,862	79,670
Other operating expenses	123,712	120,209
Amortization of tangible capital assets	2,668	2,342
Total Operating Expenses	208,242	202,221
Excess of revenue over expenses - Utility Operations	5,308	2,926
Interest from Investments and loans receivable	4,318	3,505
Loan Recovery (note 2)	17	912
Excess of revenue over expenses	9,643	7,343
Net Assets, opening balance	213,217	205,881
Adjustment to Net Assets (note 6)	(6)	(7)
Net Assets, ending balance	222,854	213,217

see accompanying notes to financial statements

Statement of Cash Flows for the year ending December 31, 2019

(in thousands of dollars)

	December 31, 2019	December 31, 2018
Cash Provided by (used for) Operating Activities		
Excess of revenue over expense-Utility Operations	5,308	2,926
Items Not Affecting Cash		
Amortization of Tangible Capital Assets	2,668	2,342
(Decrease) in future employee benefits expense	(1,261)	(69)
	6,715	5,199
Changes in non-cash operating working capital		
Accounts Receivable	(9,822)	(2,574)
Prepaid Expenses	3,311	(3,584)
Accounts Payable and Accrued Liabilities	159	4,220
Legislated Severance	973	663
	(5,379)	(1,275)
Net Cash Flows from operating activities	1,336	3,924
Cash from Investing Activities		
Interest	4,318	3,505
Principal Repaid on Loans	(133)	148
Decrease in non-current Term Deposits	8,625	15,011
Loan Recovery	17	912
Net cash flows from investing activities	12,827	19,576
Cash Used in Capital Activities		
Tangible Capital Assets Acquired	(6,215)	(4,170)
Cash Used in Financing Activities		
Changes in Net Assets	(6)	(7)
Increase (Decrease) in Cash and Short-Term Investments	7,942	19,323
Cash and Short-Term Investments, Opening Balance	45,410	26,087
Cash and Short-Term Investments, Closing Balance	53,352	45,410

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 Agency has chosen to use the standards for not-for-profit organizations that include the 4200 series sections. The significant accounting policies are as follows:

(a) Cash and Short-term Investments

Cash and short-term investments are recorded at cost. Accrued interest is recorded in accounts receivable.

(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, term deposits, loans receivable, accounts payable and accrued liabilities, and employee future benefits.

A Statement of Remeasurement of 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.

(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. Significant items subject to such estimates and assumptions include the amortization expense, accrued liabilities and employee future benefits. Actual results could differ from management's best estimates as additional information becomes available in the future.

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 2.72 percent and 8.85 percent. Scheduled principal repayments of the investments are as follows:

<i>(12 Mths Beginning January)</i>	<i>(in thousands of dollars)</i>
2020	247
2021	18
2022	19
2023	14
	298
Less: Current portion	(247)
	51

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. In September 2019, the Agency recovered \$0.017 million (\$0.912 million in 2018) which has been reflected as a reduction of the 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 Investments

The Agency has \$77.8 million invested in bank balances and term deposits as follows:

<i>(in thousands of dollars)</i>	
Bank Balances	8,966
Term deposits due within a year (Interest rates 2.10 percent-3.05 percent)	<u>44,386</u>
Cash and Short-Term Investments	53,352
Term deposits due within two years (Interest rate 2.35 percent – 2.48 percent)	<u>23,761</u>
	<u>77,113</u>

The fair value of the bank balances and term deposits approximates carrying value.

(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	37,601
61-90 days	1,997
91-120 days	1,782
121-150 days	320
More Than 151 days	1,686
Total Net Accounts Receivable Municipalities and Other Customers	43,386

An account receivable is considered to be impaired when dispute resolution has failed and the account is forwarded to legal counsel for further action. At December 31, 2019, one account was considered impaired. The outstanding balance totaled to \$0.1 million (2018 - \$0.4 million). Net Accounts Receivable includes an Allowance for Doubtful Accounts which is based on a provision for 25 percent of Accounts Receivable aged greater than 60 Days. The Agency believes that this policy mitigates the risk of incorrect provision.

(c) Cash Flow Risk

The Agency has extended a \$120 million loan to Ontario Infrastructure and Lands Corporation which matures on March 1, 2023 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.

Notes to Financial Statements
December 31, 2019

4. TANGIBLE CAPITAL ASSETS

<i>(in thousands of dollars)</i>	Cost	Accumulated Amortization	Net December 31, 2019	Net December 31, 2018
Computer Software	9,931	4,765	5,166	3,216
Information Systems	1,584	1,420	164	356
Furniture and Fixtures	97	58	39	50
Automotive Equipment	4,006	3,466	540	496
Computer Hardware	4,323	2,288	2,035	1,018
Machinery and Equipment	982	594	388	443
Leasehold Improvements	359	330	29	70
Software under Development	1,907	-	1,907	2,339
Leasehold Improvements in Progress	1,267	-	1,267	-
	24,456	12,921	11,535	7,988

The Board approved capital and re-engineering expenditures of up to \$14.7 million from fiscal 2012 onward to modernize the Agency's operating and maintenance information technology and infrastructure. As at December 31, 2017, \$12.9 million was spent and the project is now complete. In 2017 the Board approved the Agency's Business Transformation Program (BTP) capital and re-engineering expenditures of up to \$27.8 million which was implemented starting in 2018. The BTP is focused on strategic investments in infrastructure, IT systems and business practices. As at December 31, 2019, \$8.8 million was spent, of which \$6.7 million has been capitalized, including \$1.9 million of on-going projects. In addition, \$1.3 million has been capitalized for construction in progress of OCWA's new head office.

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>
2020	2,800
2021	2,481
2022	1,966
2023	1,412
2024	1,047
Thereafter	5,630
	15,336

In January 2019, the Agency entered into a lease for its new head office located at 2085 Hurontario Street, Mississauga. The new lease is for a period of 10 years with minimum lease payments totaling approximately \$5.4 million over this time period. The lease begins on July 1, 2020 and ends on June 30, 2030. The current head office lease has been extended to September 30, 2020 due to uncertainties of the COVID-19 situation. OCWA's head office will relocate to Mississauga in 2020.

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 balance are for costs, such as legal costs, that relate to property received by the Province of Ontario when the Agency was established.

7. CONTINGENCIES

(a) Contingent Liabilities

The Agency is involved in various legal claims arising in the normal course of business, the outcome of which cannot be determined at this time. Most of the legal 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.

(b) Letters of Credit

The Agency has lines of credit with the Royal Bank of Canada for \$50 million. As of December 31, 2019, \$16.9 million (2018 - \$16.4 million) of these lines of credit have been used to provide letters of credit to municipalities in accordance with the terms of their operations and maintenance agreements.

8. EMPLOYEE FUTURE BENEFITS

(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 \$14.0 million (2018 - \$14.3 million) of which \$6.3 million (2018 - \$5.3 million) has been classified as current liability. The amount charged to the income statement in 2019 was \$0.9 million (2018 - \$0.1

million) and is included in salaries and benefits expense in the Statement of Operations and Changes in Net Assets.

The legislative severance portion of the employee future benefits obligation totaled \$6.3 million of which \$3.7 million is long term. The long term portion was calculated based on the following assumptions: discount rate of 2.39 percent (2018 - 2.23 percent) and estimated years to retirement of each employee. Due to policy changes for these benefits, no assumption of wage and salary escalation was used (2018 - zero percent). These assumptions are management's best estimate.

Included in employee future benefits obligation is an estimated workers compensation obligation in the amount of \$3.0 million (2018 - \$3.6 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, 2018.

It is management's opinion that the balance at December 31, 2019 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.

(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 \$5.3 million (2018 - \$5.0 million), are included in salaries and benefits in the Statement of Operations and Change in Net Assets.

9. RELATED PARTY TRANSACTIONS

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

- (i) The Agency received revenue of \$2.5 million (2018 - \$3.8 million) from the Ontario Infrastructure and Lands Corporation (OILC) 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 \$1.2 million (2018 - \$2.2 million) from the Ministry of the Environment, Conservation and Parks (MECP) for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients.
- (iii) The Agency received revenue of \$1.3 million (2018 - \$0.6 million) from the Ministry of Energy, Northern Development and Mines (MENDM) 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 received funds of \$0.3 million (2018 - \$0.1 million) from the Independent Electricity System Operator, for the Pay for Performance pilot project.
- (v) The Agency has a \$120 million loan receivable with Ontario Infrastructure and Lands Corporation (OILC), as described in note 3c.
- (vi) The Agency received revenue of \$0.031 million (2018 - \$0.026 million) from the Ministry of Natural Resources and Forestry (MNRF) for water and wastewater treatment services OCWA

has provided. The services were provided at competitive rates similar to those of other OCWA clients.

- (vii) The Agency received revenue of \$0.028 million (2018 - \$0.032 million) from the Ministry of Government & Consumer Services for Summer Experience Program.
- (viii) 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.