

ANNUAL REPORT
2018

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MESSAGE FROM JOE PENNACHETTI, CHAIR OF OCWA'S BOARD OF DIRECTORS

Having spent my professional career working in the municipal sector, including positions with the City of Edmonton and four municipalities in the Greater Toronto area, the most recent of which was as the City Manager for the City of Toronto, I came to the Ontario Clean Water Agency (OCWA) at the beginning of 2018 with a strong understanding of the needs that Ontario municipalities have with regard to the delivery of water and wastewater services. In the year that I have been on the Agency's Board of Directors, I have been extremely impressed by the commitment that OCWA has demonstrated to serving its large and small municipal and First Nations clients across the province.

OCWA's long-term strategic plan balances the Agency's business objectives with its public mandate as a crown corporation, aligning business growth with the need for internal efficiency and a responsibility to support local communities and protect human health and the environment. This approach ensures that the needs of client communities and the people they serve drive the Agency's business decisions and are its first priority.

Over the past few years OCWA has worked hard to expand its service offerings beyond the operation and maintenance of water and wastewater systems,

assisting clients in developing long-term asset and infrastructure management plans that will meet provincial requirements and working to ensure that clients have the tools and capability to manage their systems in the most environmentally responsible and cost-effective manner. This includes: helping clients to implement asset and maintenance management systems; providing expert advice on ways in which to improve facility processes and reduce energy consumption; and working with clients to pursue environmentally beneficial waste diversion and resource recovery opportunities.

OCWA's focus on meeting a full range of water and wastewater service needs has proved very successful. Total revenues increased by 24 percent between 2014 and 2018, rising from \$165.7 million to \$205.1 million, and the Agency is on track to achieve consistent and continued financial growth. The Agency's strategies for the next five years will not only drive growth but will help to achieve the province's objectives of ensuring quality water services and meeting environmental objectives for the residents and businesses of Ontario.

The municipal landscape in Ontario is continually evolving, as are the water and wastewater needs of individual municipalities. OCWA's focus on addressing both current and future client needs by providing a full range of water, wastewater and waste diversion services, combined with the Agency's continuing efforts to enhance internal efficiency and our continuing focus on enhancing our partnership with First Nation clients, leave the Agency well positioned to deliver positive results to the province for many years to come.



MESSAGE FROM NEVIN MCKEOWN, OCWA'S PRESIDENT AND CEO

November 15, 2018 marked an important milestone for OCWA, the twenty-fifth anniversary of the Agency's inception. Having been with OCWA from the beginning, I have had the privilege of witnessing the Agency's evolution over the years. While our commitment to delivering exceptional service to our municipal and other clients across the province has never changed, the services that we deliver and the way in which we deliver them are very different than they were when the Agency was established in 1993.

When I was starting my career as a wastewater operator in the Region of Peel, the Ontario water industry was very different than it is today, with the provincial government owning and overseeing the operation and maintenance of municipal water and wastewater facilities. Individual municipalities now own and are responsible for the operation of their own facilities. Regulatory requirements have also increased significantly over the intervening years, requiring greater operational expertise to ensure the protection of public health and safety and the environment. As the largest operating authority in Ontario, OCWA is there to help municipalities in meeting these challenges.

Over the past year we have worked steadily to strengthen the relationships that we have with our municipal clients, many of whom have been with OCWA for the past quarter century.

The feedback that we are receiving from clients is extremely positive. That positivity is reflected in the significant number of clients that choose to renew their contracts with the Agency, many for terms of ten years or longer. Most notable is the renewal of our contract with our largest client, the Region of Peel, for a term of up to 20 years. Other significant renewals in 2018 include the Town of Carleton Place and the Municipality of South Bruce. We have also continued to build on our relationships with our First Nations clients, implementing two remote monitoring and maintenance management system pilot projects to improve operations and help ensure the long-term safety and sustainability of community water and wastewater systems.

We continue to make progress on a number of significant Agency programs, including our Business Transformation Program, which includes the development of a comprehensive asset management system for the Agency. The investment that we have made in asset management over the past few years is showing results, with OCWA becoming recognized as a leading source of asset management expertise for small and medium sized municipalities across Ontario. Other initiatives being undertaken as part of the Business Transformation Program, including upgrading the Agency's financial system, will increase the Agency's internal efficiency and help us to quickly adapt to the changing needs of our clients.



Our new waste diversion and resource recovery initiatives are also proving to be successful. Work is continuing on the innovative biogas project that OCWA is undertaking with the City of Stratford and the Dufferin organics facility that OCWA is operating for the City of Toronto will be fully operational in 2019. A number of other waste diversion projects are also being pursued across the province, making these initiatives a major driver of future growth for the Agency.

The focus that we have placed on improving efficiency for both our clients and our internal process is also continuing to deliver results. By the end of 2018, OCWA's energy savings program had resulted in cumulative energy savings of 46,820 MWh and a \$7 million reduction in cumulative energy costs for the Agency's clients. With regard to internal improvements, we are continuing enhance our procurement practices with a goal to reduce the cost of and time required to purchase goods and services on behalf of our clients.

None of these successes would have been possible without the hard work and commitment of our talented managers and staff. I am very proud of the accomplishments that we have achieved together over the years and am excited about what we can achieve in the future.



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 of water and wastewater treatment facilities and their associated distribution and collection systems on behalf of municipalities, First Nation 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 among 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 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 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, greener ways to manage their water and wastewater systems. OCWA works with clients to enhance the resilience of their infrastructure, 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 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 to 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 individuals with a range of competencies and backgrounds, enabling the Board to effectively fulfill its stewardship responsibilities. 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; Business Transformation and Technology Committee; Compliance and Operational Risk Management Committee; First Nations Committee; and 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.

BOARD DIRECTORS AND TERMS

In addition to the Chair, OCWA had eight Board Directors as at December 31, 2018. Board members and terms are as follows:

- Joseph Pennachetti, Chair (February 2018 to February 2021)
- Melanie Debassige (October 2013 – October 2019)
- Jon Dogterom (May 2016-May 2019)
- Debbie Korolnek (March 2017-March 2020)
- Brenda Lucas (May 2016-May 2019)
- Sandra Odendahl (August 2017-August 2020)
- Debra Sikora (January 2014 – January 2020)
- Michael Thorne (June 2013 – June 2019)
- Mitchell Zamojc (April 2016-April 2019)

DIRECTOR COMPENSATION

Total Director compensation for 2018 was \$44,836.40. 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.

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; and
- Utilizing an Enterprise Risk Management program to identify and assess business and operational risks.

OVERVIEW OF 2018 ACHIEVEMENTS

OCWA worked hard throughout 2018 to meet the objectives outlined in the 2018 Mandate Letter from the Minister. Highlights of the Agency's key achievements are included below.

SUPPORTING ACCESS TO SAFE, SUSTAINABLE DRINKING WATER IN FIRST NATIONS COMMUNITIES

OCWA has a long history of working with First Nation communities in Ontario. Key elements of OCWA's approach to supporting First Nation communities include:

- Supporting the Agency's First Nation 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 Nation 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 Nation communities in conjunction with the Ontario First Nations Technical Services Corporation through the federal Circuit Rider Training Program; and
- Providing emergency response services to First Nation communities when requested.

In 2018, OCWA developed a comprehensive First Nations strategy that outlines how the Agency will establish partnerships with First Nations and First Nations organizations to support the development and implementation of sustainable water solutions in First Nations communities. The strategy includes a number of initiatives that the Agency will focus on in 2019 and beyond, grouped into six key areas of focus:

1. Building OCWA's First Nations knowledge by providing First Nations awareness training to Agency managers and staff;
2. Building awareness and strengthening relationships with the Agency's First Nations clients;
3. Engaging First Nations youth with respect to careers in water;
4. Enhancing the Agency's First Nation service delivery model to better address client needs;
5. Strengthening relationships with First Nations stakeholders; and
6. Managing performance.

Other activities undertaken in 2018 include implementing remote monitoring and maintenance management system pilot projects in conjunction with the Waabnoong Bemjiwang Association of First Nations and the Bimose Tribal Council. These projects involved installing remote monitoring and maintenance management systems to enable real-time offsite monitoring, provide a standardized platform for managing community water and wastewater assets, improve operations and help ensure the long-term safety and sustainability of community water and wastewater systems. The success of the pilots will be evaluated in 2019, with results communicated to First Nations stakeholders and recommendations incorporated into future projects.



INCREASING WASTE DIVERSION AND SUPPORTING THE FIGHT AGAINST CLIMATE CHANGE

OCWA is committed to working with clients to conserve energy, save money and produce less waste. This includes optimizing client facilities to reduce the energy required for water and wastewater treatment. Other supports include implementing initiatives that harness the energy potential of biosolids and other organic waste, keeping them out of landfills and reducing the production of greenhouse gases (GHGs) in client wastewater facilities.

Over the past few years OCWA has worked with clients and other stakeholders, including the Independent Electricity System Operator (IESO), the Ministry of Energy, Northern Development and Mines, and local electric and gas distribution companies, to achieve the combined goals of energy savings and GHG reduction. OCWA's approach, which involves combining equipment retrofits with operational and behavioural changes, has resulted in significant energy savings for Agency clients.

The OCWA/IESO pay for performance pilot program, funded through the IESO Conservation Fund, involves completing detailed energy assessments and capital improvement plans for client municipalities and then assisting them in implementing the recommended energy efficiency measures. By the end of 2018, OCWA had helped clients to realize cumulative energy savings of 46,820 MWh through this program, resulting in a cumulative reduction in energy costs of \$7 million.

In addition to the Agency's work with IESO, OCWA implemented a new initiative in 2018 to install energy monitoring and targeting (M&T) systems in some client facilities. These M&T systems allow staff to analyze energy consumption for key pieces of equipment, establish an energy baseline, identify opportunities for energy savings, and establish benchmarks for water and wastewater facilities in Ontario. To date, M&T equipment has been installed in three OCWA-operated facilities, with six new implementations planned for 2019.

OCWA is also undertaking new initiatives that will increase waste diversion by supporting the development and implementation of resource recovery facilities that use wastewater and concentrated organic waste to generate biogas for productive use. This process is referred to in the industry as "co-digestion".

OCWA, the City of Stratford and SUEZ Water Technologies and Solutions are currently partnering on a project that will use new technology to optimize the existing Stratford Water Pollution Control Plant and increase its production of methane gas by adding compost and food waste that can then be converted into renewable natural gas. The renewable natural gas will then be fed back into the local gas distribution system. This "net zero" initiative will produce a renewable energy source, divert 24,000 tonnes of waste from landfill annually and result in cost savings and a significant reduction in GHG emissions for the City of Stratford. The project will serve as a model for other municipalities across Ontario and Canada, many of which have untapped potential to produce biogas, reduce energy costs and significantly reduce harmful GHG emissions.



In addition to the Stratford project, OCWA is working with several municipalities to conduct feasibility studies for co-digestion and energy recovery initiatives. It is anticipated that these studies will result in additional projects that promote a circular economy in which waste is beneficially reused in the future.

WORKING WITH CLIENTS TO PROTECT LOCAL WATER SOURCES

Nutrients like nitrogen and phosphorus support the growth of plants and other organisms. While these nutrients are beneficial for gardens and farmers' fields, they can have an adverse effect on water bodies like lakes and rivers by supporting the growth of damaging organisms, like blue green algae, that can lead to large-scale environmental problems. OCWA is working with clients to optimize the operation of their wastewater facilities to limit the amount of these damaging nutrients that enter local water bodies from the outflows of their wastewater treatment facilities. By making process and technical changes that optimize their systems for nutrient management OCWA can help clients to protect their local water systems and meet progressively more stringent regulatory requirements, potentially offsetting the need for expensive capital upgrades.

Some of the facility optimization projects undertaken in 2018 include:

- Optimizing chemical use (including the development of chemical dosing calculators) and establishing a solids wasting strategy to ensure that Total Ammonia Nitrogen limits and objectives are being met in parts of the Essex Regional Hub and in the Northwestern Hub;
- Identifying low capital cost options for retaining heat to encourage the achievement of Total Nitrogen limits to the receiving body at a facility in the Southwest Regional Hub where denitrification is difficult in the winter months;
- Completing facility optimizations at two facilities in the Georgian Highlands Regional Hub where meeting Total Nitrogen limits was a challenge;
- Completing feasibility studies to evaluate technologies for tertiary treatment options to meet phosphorous limits and objectives at two other facilities in the Georgian Highlands Regional Hub;
- Evaluating the impact of using orthophosphate (a form of phosphorous addition) in water facilities as a corrosion inhibitor to prevent the leaching of lead and copper from pipes and fixtures; and
- Employing optimization strategies to ensure ammonia removal and optimizing chemical application to meet effluent phosphorous limits at facilities in the Eastern Regional Hub.

In addition to these initiatives, OCWA and the Town of Lakeshore are participating, along with municipalities such as Leamington, Sarnia and Chatham-Kent, in the South West Ontario Optimization Program Pilot, which is being led by the Ministry of the Environment, Conservation and Parks. This initiative supports the Canada-Ontario Lake Erie Action Plan goal to reduce phosphorus loadings and algal blooms by reviewing the current processes and capacity of municipal wastewater treatment plants and looking for opportunities to optimize the plants to meet the phosphorous reduction targets included in the Action Plan.



HELPING CLIENTS TO DEVELOP LONG-TERM WATER AND WASTEWATER INFRASTRUCTURE PLANS

Helping clients to maintain the long-term sustainability of their water and wastewater infrastructure assets is one of the most important ways in which OCWA delivers value to clients. The need for a greater focus on the development of comprehensive asset management plans and practices is of significant concern for many Ontario municipalities, particularly small and medium communities that may not have staff dedicated to asset management. The new provincial Asset Management Planning for Municipal Infrastructure regulation under the *Infrastructure for Jobs and Prosperity Act, 2015* that requires all Ontario municipalities to have comprehensive asset management plans by 2021 makes this need even more pressing.

OCWA is well positioned to assist its client municipalities, the majority of which are small and rural, in developing effective evidence-based asset management plans that meet the requirements of the new regulation. OCWA has made a significant investment in recent years to upgrade the Agency's Work Management System, which is used to track maintenance completed by Agency operators and manage and maintain clients' assets, information that is critical to developing evidence-based asset management plans.

Throughout 2018 staff also worked hard to develop a comprehensive Asset Stewardship Quality Management System (ASQMS) for the Agency, which includes asset management standards and maintenance practices that are consistent with industry best practices. To make the program of more use to client municipalities, OCWA's ASQMS framework is flexible and can support not only water and wastewater infrastructure, but all infrastructure assets within a municipality. The ASQMS framework was piloted at two OCWA client sites (the Wasaga Beach Wastewater Treatment Plants and the Renfrew Water Treatment Plant) and has proved to be very successful, with many other clients and non-OCWA clients requesting proposals for asset management related services.

Other key elements of OCWA's asset management program include an asset maintenance and management skills development program and an application guide that has been developed for staff to guide them in the delivery of asset management and maintenance services to clients. The initial skills development program was developed in 2018 and will be provided to all OCWA staff in 2019. The eight-hour online course provides staff with an understanding of the ASQMS framework, increasing awareness of how their roles contribute to asset management planning, and enhancing OCWA's culture with regard to asset management. More detailed training will be provided to staff that are directly responsible for delivering asset management services to clients.

EDUCATING THE PUBLIC ABOUT THE IMPORTANCE OF WATER AND THE GREAT LAKES

Educating the public about the importance of water through education and awareness programs is another way in which OCWA brings value above and beyond the services that it delivers directly to clients. Over the past several years, the Agency has developed two signature programs: the “I Don’t Flush” public awareness campaign, which promotes the protection of water and water infrastructure; and the OneWater® Education Program, our water literacy initiative for senior elementary school students.

OneWater® brings educators together with local OCWA water operators to deliver activity-based lessons on water and the water cycle that align with the Ontario grade eight science curriculum. A unique feature of the program is a classroom visit by water operators, who teach students about how water is treated in their community and conduct hands-on demonstrations. To date, more than 2,300 students across the province have completed the OneWater® program, with more than 85 per cent of participating students demonstrating increased awareness of water treatment.

Agency staff are currently finalizing new materials for inclusion in the program, focused on resource recovery and water from an Indigenous perspective. A limited pilot of the resource recovery module has been completed in two schools, with plans to include additional schools for the 2018/19 school year. This module will “close the loop” in the water-wastewater cycle, educating students on opportunities to recycle waste as a resource, use its energy and return what remains to enrich the Earth. The water from an Indigenous perspective module will be piloted in 2019.

OCWA is also continuing to offer The Changing Great Lakes program, which aligns with the grade seven/eight Social Studies curriculum. This material introduces students to the important role the Great Lakes play in the environment and looks at adaptation strategies to climate change.

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. The response to “I Don’t Flush” has been extremely positive, resulting in more than 70 million media impressions to date, including features on Global News and Breakfast Television, and coverage in the National Post and Toronto Sun, among other media outlets.

There have been three phases of the campaign, with a fourth planned for fall 2019. 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 in 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, which, if poured down the drain, can cause significant damage to both household plumbing and municipal wastewater systems. The fourth phase of the campaign was initially scheduled for 2018 but was deferred to fall 2019 to allow the Agency to continue to spotlight the fats, oils and grease campaign. This fourth phase will be a wrap-up campaign and will encompass messaging from previous phases, essentially reminding the public that “your toilet is not a garbage can.”



ENHANCING THE AGENCY'S EMERGENCY RESPONSE CAPABILITIES

Given OCWA's role as a public agency, protecting public health and safety is the Agency's top priority. This includes maintaining a robust emergency management program and ensuring that staff are available to respond to water and wastewater emergencies in client and other communities where required at the request of the Province.

Critical to the Agency's emergency management program are the five OCWA Emergency Response Teams, which were established in 2005 in response to the Report of the Walkerton Inquiry. Strategically located across Ontario, these highly trained and well equipped teams are available 24 hours a day, ready and able to deliver emergency assistance should the need arise. The teams provide the Province with the capability to effectively and efficiently remediate water and wastewater emergencies in Ontario municipalities and First Nation communities.

In 2018, OCWA undertook a number of activities to enhance the Agency's ability to respond to a variety of emergency situations across the province. This included purchasing additional flood mitigation products to ensure that we are prepared to respond to the increasing number of flooding events that have taken place in recent years, along with equipment to enhance the Agency's pipe thawing capabilities in the winter.

Other activities included conducting a flood mitigation exercise using the Agency's newly acquired water dam equipment at a client facility in the Town of Minden and completing a table-top exercise involving OCWA staff in several locations across the province to test the effectiveness of the Agency's overall emergency response plan. Results of both exercises were then evaluated to identify what went well, determine where there are opportunities to improve the Agency's emergency response plan and protocols, and establish action plans to implement the recommendations.

MEASURING PERFORMANCE - 2018 RESULTS

SUPPORTING OUR CLIENTS BY DELIVERING TOTAL SOLUTIONS

TAKING A LONG-TERM APPROACH TO INFRASTRUCTURE MANAGEMENT

GOAL

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

PERFORMANCE MEASURE

- Comprehensive Asset Stewardship Quality Management System (ASQMS) developed by the end of 2018 that includes the ASQMS framework, an application guide for staff, and an asset maintenance and management skills development program that results in enhanced capacity of Agency staff to deliver asset management services to clients
- OCWA's ASQMS program enables clients to meet the requirements of future provincial asset management regulations

YEAR-END RESULTS

- ASQMS framework developed and piloted at two client sites
- Level One of the Asset Management skills development program, which is intended to provide all OCWA staff with an understanding of OCWA's Asset Management program, developed and piloted by the end of 2018; finalized program will be rolled-out to staff in Q1, 2019
- Development of Level Two and Level Three courses, intended for staff directly delivering Asset Management services to clients, is on track for completion in 2019
- Provincial asset management requirements incorporated into the ASQMS framework
- Provided information on the new asset management regulation to clients at conferences and OCWA sponsored information sessions
- Initiated partnership with Asset Management Ontario to utilize ASQMS framework and tools in small and medium sized municipalities

MITIGATING THE IMPACT OF CLIMATE CHANGE THROUGH ENERGY MANAGEMENT AND WASTE DIVERSION

GOAL

- Help clients to harness the energy potential of biosolids and other organic waste and reduce the production of GHGs in client wastewater facilities

PERFORMANCE MEASURE

- OCWA/IESO energy program delivers cumulative energy savings of 49,000 MWh in client facilities by the end of 2018
- Energy monitoring and targeting (M&T) equipment installed in 2 client facilities by the end of 2018, resulting in a 5 percent 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

YEAR-END RESULTS

- 18 additional projects completed in 2018, resulting in total cumulative energy savings of 46,820 MWh (4.5 percent below target of 49,000 MWh) and an additional \$79,122 in incentive payments for OCWA clients
- Cumulative energy savings below target for 2018 due to delays in completing some projects
- Two M&T projects completed at the Bobcaygeon Wastewater Treatment Plant and Water Treatment Plant in 2018
- Implementation of energy savings measures identified through the M&T projects to be completed in Q1, 2019, with resulting energy savings tracked for the rest of the year
- Detailed costing and financial modeling for the project completed
- Memorandum of Understanding for legal framework developed; negotiation of agreements underway
- Class Environmental Assessment and Environmental Compliance Approval application submitted to the Ministry of the Environment, Conservation and Parks
- Design engineering underway
- Negotiating gas off-take agreement with FortisBC

LEVERAGING TECHNOLOGY TO MEET CLIENT NEEDS

GOAL

- Promote innovation and support the development and implementation of new water and wastewater technologies that improve the operation of our clients' facilities

PERFORMANCE MEASURE

- 3 workshops or events that promote Ontario technologies and connect Ontario technology companies to municipalities organized and facilitated in 2018, resulting in 3 additional technology solutions (pilot or full scale) being implemented in client facilities

YEAR-END RESULTS

- Co-hosted two working group meetings with municipalities that attended the 2017 Net Zero event
- Conducted four lunch and learn sessions on energy conservation and resource recovery

- Technology Showcase held in conjunction with the Southern Ontario Water Consortium on September 21, 2018
- 140 attendees, including representatives from 20 municipalities
- Implemented a number of pilot projects:
 - Huron - piloting a system that monitors motor performance indicators that can be used to determine efficiency and predictive failure that will assist in driving capital maintenance and avoid breakdown maintenance costs for high voltage motors
 - Bobcaygeon and Renfrew – piloting a solution which utilizes plant process, energy and chemical consumption data to develop recommendations to drive further efficiencies
 - Carlton Place - piloting solutions that eliminate odour, improve regulatory compliance, simplify biosolids and organic management and convert waste streams to renewable resources
 - Casselman – completed pilot of technology to address historic issues with colour and taste in water being distributed from the water treatment plant
- Pursuing dialogue with additional innovative technology providers and municipal clients

ENHANCING OUR PRODUCTIVITY, EFFICIENCY AND EFFECTIVENESS

TRANSFORMING OUR BUSINESS PROCESSES

GOAL

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

PERFORMANCE MEASURE

- Enterprise Resource Planning (ERP) system processes mapped and system upgrade initiated by the end of Q1, 2018, with full implementation complete by 2019, resulting in a 5-10 percent reduction in the time required to complete financial administration tasks by the end of 2019
- Mobile application for work orders piloted by Q3, 2018, resulting in a 10 percent reduction in the time required to manage work orders by the end of 2019
- Automated process for annual client capital recommendations implemented by Q3, 2018, resulting in a 5 percent reduction in the time required to manage work orders by the end of 2019

YEAR-END RESULTS

- ERP vendor selected in Q2 and project initiated in Q3, 2018
- ERP process re-engineering completed in Q3/Q4, 2018
- On-track to complete design, configuration, testing and training for the budgeting solution by the end of Q2, 2019
- On-track to complete design, configuration, testing and training for the financial solution by the end of Q4, 2019
- Request for Proposal completed to select product and implementation team in Q1, 2018
- Vendor selected for mobile Maximo pilot and agreement signed in Q3, 2018
- Planning and mobilization completed in Q4, 2018
- On-track to complete pilot by the end of Q2, 2019
- Development and testing completed in Q3/Q4, 2018
- On-track to complete implementation by the end of Q2, 2019

OPTIMIZING PROCUREMENT

GOAL

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

PERFORMANCE MEASURE

- Procurement planning process implemented by Q2, 2018
- Supplier Relationship Management (SRM) program developed by the end of 2018, for implementation in 2019
- Revamped chemical procurement process complete by Q4, 2018
- Procurement process improvements result in a 10 percent reduction in the time required to procure goods and services by the end of 2019

YEAR-END RESULTS

- Procurement planning process implementation delayed; implementation completed in Q4, 2018
- The new process has resulted in better procurement planning, with 36 tender requests identified in advance for 2019
- Development of the SRM program was delayed due to time constraints and in year pressures related to other projects
- Significant research and roadmap completed; input on Key Performance Indicators received from the Project Planning and Development and Compliance groups to ensure alignment with other OCWA programs
- Targeting finalization and implementation of the program in Q2, 2019

- Revamped chemical procurement process in place at the end of 2018
- Changes are expected to result in easier to understand spreadsheets for managers, stronger relationships with key suppliers and streamlined tender documents
- Template tender documents developed and provided to managers and staff in Q4, 2018
- Improvements implemented for all tender documents to streamline insurance requirements for vendors
- Continuing to review options to reduce the time required to procure goods and services, including adding new Vendor of Record arrangements and streamlining tender templates to reduce review times by the Procurement Team Lead and Legal group

SERVING OUR COMMUNITIES AND SUPPORTING THE PROVINCE

RESPONDING TO WATER AND WASTEWATER EMERGENCIES

GOAL

- Expand the Agency's emergency response capabilities and enhance the Agency's ability to respond to a variety of emergency situations across the province

PERFORMANCE MEASURE

- OCWA Emergency Response Team equipment refresh/upgrade complete by the end of 2018
- Functional test of OCWA's emergency response program, including activation of one or more response teams, completed in conjunction with one or more client municipalities in 2018 to evaluate the Agency's emergency response capabilities

YEAR-END RESULTS

- Equipment refresh/upgrade completed in 2018
- Upgrades included portable flotation devices to protect the team during flood mitigation and standardized sets of couplings for pipe thawing capabilities
- Flood mitigation exercise, including activation of one of the Agency's emergency response teams, conducted at a client facility in the Town of Minden Hills; Town staff invited to participate in the exercise but were unable to attend
- Table-top exercise conducted involving staff in several locations across the province to test the effectiveness of the Agency's overall emergency response plan
- Results of both exercises evaluated to identify when went well, determine opportunities to improve the Agency's emergency response plans and establish action plans to implement the recommendations

SUPPORTING FIRST NATIONS

GOAL

- Support the development of sustainable water and wastewater solutions, including effective infrastructure management and elimination of long-term drinking water advisories, for First Nation communities

PERFORMANCE MEASURE

- Remote monitoring and maintenance pilot projects implemented in two First Nation communities by the end of 2018; evaluation of the impact of the pilots on the operation and maintenance of the community water and wastewater facilities conducted following completion of the pilots

- Goals and strategies to support access to safe, sustainable drinking water in First Nation communities through the trilateral process between First Nations, Ontario and the federal government developed in conjunction with the MECP's Indigenous Drinking Water Projects Office

YEAR-END RESULTS

- Two remote monitoring and maintenance pilots implemented in First Nation communities
- Bimose Tribal Council pilot
- Installed six cloud-based remote monitoring systems in Dalles, Eagle Lake, Wabaseemoong First

Nation (White Dog), Shoal Lake, Wabigoon Lake Ojibway Nation, and Wabauskang First Nation

- Waabnoong Bemjwang Association of First Nations project
 - Installed two cloud-based remote monitoring systems in Wasauksing and Nipissing First Nation
 - Implemented OCWA's Work Management System at Wasauksing and Nipissing First Nation
- Evaluation of the pilot projects to be completed in 2019; will incorporate recommendations from the pilot projects into future
- Developed a First Nations strategy that outlines how the Agency will establish partnerships with First Nations and First Nations organizations to support the development and implementation of sustainable water solutions in First Nations communities
- Ongoing dialogue throughout 2018 with staff in the MECP's Indigenous Drinking Water Projects Office regarding OCWA support for First Nations/Ontario /Federal trilateral initiative to support access to safe, sustainable drinking water in First Nation communities

DELIVERING WATER EDUCATION PROGRAMS

GOAL

- Continue to enhance and promote the OneWater and "I Don't Flush" programs

PERFORMANCE MEASURE

- An additional 10 communities participate in the OneWater program, with a total of 2500 students completing the OneWater program by the end of the 2018/19 school year, with 80 percent of students demonstrating behavioural awareness in how they treat water as a result of the OneWater program
- New resource recovery module for the OneWater program piloted by the end of Q2, 2018
- Refreshed I Don't Flush (IDF) pharmaceutical campaign relaunched in 2018 with an additional partner on board
- Phase four of the I Don't Flush campaign ("your toilet is not a garbage can") launched with five municipal sponsors, resulting in 20 million media impressions

YEAR-END RESULTS

- Over 2,300 students had completed the program at the end of 2018
- New communities being included into the program starting in January of 2019; on track to have provided the program to 2500 students by the end of the 2018/2019
- More than 85 percent of students that completed the program demonstrated increased awareness of water treatment
- Resource recovery module finalized and limited pilot completed in two schools in 2018
- Additional schools to be included in the pilot 2019
- Decision made to focus the 2018 campaign on personal hygiene products and fats, oil and grease instead of pharmaceuticals
- Implementation of phase four of the campaign postponed until 2019 to allow the Agency to continue to spotlight the fats, oil and grease campaign throughout 2018
- Outreach underway to identify new municipalities to participate in phase four of the program in 2019

ENSURING THE HEALTH AND WELL-BEING OF OUR EMPLOYEES

PRIORITIZING DIVERSITY AND INCLUSION

GOAL

- Identify where there are diversity and inclusion gaps in the Agency and implement strategies to address the gaps

PERFORMANCE MEASURE

- Current state inclusivity assessment report developed by Q4, 2018 that includes an assessment of the Agency's diversity and inclusion gaps, along with a plan to address the gaps

YEAR-END RESULTS

- Partnered with the Canadian Centre for Diversity and Inclusion to create a diversity and inclusion strategy for OCWA
- All leaders completed Intercultural Competence Development (IDI) questionnaires and one on one interviews; half-day session held to discuss the results as a group to assess the cultural competence development level and help the team understand how to work together to lead and create an inclusive work culture
- Diversity Census and Inclusion Survey sent to all OCWA employees – 62 percent response rate
- Virtual focus groups completed
- Development of current state inclusivity assessment report deferred to Q1, 2019

ENSURING WORKPLACE HEALTH AND SAFETY

GOAL

- Develop an ingrained safety and wellness culture within the Agency

PERFORMANCE MEASURE

- Year-over-year reduction in the Agency's Recordable Incident Rate (RIR), with a target for 2018 of 1.89 or lower

- Year-over-year reduction in the Agency's Lost Time Injury Rate (LTIR), with a target for 2018 of 0.49 or lower

YEAR-END RESULTS

- 2018 year-end RIR was 1.09 (43 percent below the target of 1.89 but higher than the 2017 year-end RIR of 0.80)
- 2018 year-end LTIR was 0.33 (33 percent below the target of 0.49 but higher than the 2017 year-end LTIR of 0.23)

ENGAGING OUR EMPLOYEES

GOAL

- Improve the Agency's level of employee engagement

PERFORMANCE MEASURE

- More than 60 percent of OCWA employees respond to the 2018 OPS employee survey, with the Agency attaining an employee engagement index of 70 or higher

YEAR-END RESULTS

- 2018 survey was released on April 18, 2018 and ran for 10 business days
- Response rate was 81 percent, well above of the target of 60 percent
- Employee Engagement Index was 70.2, on track with the target of 70 or higher
- Survey results discussed with management staff with direction to focus on one or two improvement areas
- Management consultations with staff completed to celebrate successes and develop action plans concentrating on one or two improvement areas

MANAGEMENT ANALYSIS OF FINANCIAL RESULTS

OVERVIEW

2018 was another year of positive financial results for OCWA. The Agency realized a Net Income of \$7.3 million, an increase of 27.5 percent when compared to 2017, and well ahead of the plan for the year. Contributing factors included a 6.8 percent growth in Total Operating Revenue, which was primarily driven by increases in Major Maintenance revenue. Other contributing factors include a \$912,000 loan recovery, management of expenses and other cost savings, combined with higher investment income fueled by the three increases to the Bank of Canada overnight rate. These increases were enough to offset a 7 percent increase in Total Operating Expenses resulting from a combination of salary and benefits increases for bargaining unit staff and other cost increases.

BALANCE SHEET

Net Assets increased to \$213.2 million, an increase of 3.6 percent as compared to 2017, due to the strong Net Income of \$7.3 million. Cash and short-term investments increased by \$19.3 million, primarily due to increased cash flows from investing and operating activities, which were partially offset by the purchase of capital assets. The Agency continues to meet its obligations without the use of debt, and as in prior years, had no outstanding financial obligations in 2018.

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 2018, signing several long-term contracts of five-to-ten years and renewing the Agency's contract with its largest client, the region of Peel, for a term of up to 20 years. In addition to retaining clients, the Agency was successful in attracting new clients, signing a new waste diversion contract with the City of Toronto. OCWA will be pursuing other similar projects in the future and anticipates that this will be an important driver of future revenue growth.

Total Operating Revenues increased by 6.8 percent as compared to 2017, due to contractual increases and increased 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 a 12.3 percent increase in Major Maintenance revenues.

The Agency's Other Business Revenue is comprised of revenue from the Engineering Services and Training Groups. In 2018 revenues from these services increased by 18.2 percent when compared to the prior year, primarily due to increases in project management services and increased demand for drinking water courses.

EXPENSES

Total Operating Expenses increased by 7 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 5.2 percent are attributable to cost of living and merit increases for collective bargaining 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.

Amortization was impacted in 2018 by the purchase of specialized vehicles in the prior year and the Agency's financial system being fully amortized. Amortization of the specialized vehicles was offset by the fully amortized financial system, along with reduced spending on Information technology software, resulting in an overall reduction in amortized costs of 9.6 percent.

An 8.6 percent increase of in other operating expenses was fueled by spending on commodities and other costs directly related to the operating of client facilities. This was partially offset by reduced spending on discretionary items such as travel and promotions.

Spending on infrastructure upgrades and other out of scope services resulted in a 13.1 percent increase in repair and maintenance costs as compared to 2017, with clients continuing to upgrade and repair their facilities.

Chemical costs are driven by price and usage. The Agency has established multiyear contracts with chemical suppliers, which reduce exposure to market volatility and chemical price fluctuations. In 2018, chemical costs increased by 4.4 percent, driven by price increases and some client facilities using higher volumes.

Insurance costs are driven by insurable values, revenues and claims history. In 2018, insurance costs increased by 3.8 percent, primarily due to 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, over-night cash balances and loans receivable. During 2018, Bank of Canada increased interest rates three times, allowing investments coming due in 2018 to be reinvested at higher 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 33.8 percent as compared to 2017.

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



Prem Rooplal
Vice President, Finance and Corporate Services

Toronto, Ontario
May 14, 2019



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

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, 2018 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, 2018 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 our report. I am independent of OCWA in accordance with the ethical requirements that are relevant to our 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.

Other Information

Management is responsible for the other information. The other information comprises the information included in OCWA's 2018 Annual Report, but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on this other information, I conclude that there is a material misstatement of this other information, I am required to report that fact in this auditor's report. I have nothing to report in this regard.

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 OCWA's ability to continue as a going concern, disclosing, as applicable, matters relating 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.

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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
May 14, 2019



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

2018 Financial Statements

Statement of Financial Position as at December 31, 2018

	(in thousands of dollars)	
	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and short-term investments (note 3a)	45,410	26,087
Accounts receivable, net		
Municipalities and other customers (note 3b)	35,388	31,656
Ministry of the Environment, Conservation and Parks	169	362
Harmonized sales tax receivable	2,634	3,599
Prepaid Expenses	4,424	840
Current portion of investments receivable for water and wastewater facilities (note 2)	67	258
	88,092	62,802
Non-current assets:		
Investments in term deposits (note 3a)	32,386	47,397
Investments receivable for water and wastewater facilities (note 2)	98	55
Loan receivable - Ontario Infrastructure and Lands Corporation (note 3c)	120,000	120,000
Tangible Capital Assets, net (note 4)	7,988	6,160
	160,472	173,612
Total Assets	248,564	236,414
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	21,037	16,817
Current portion of employee future benefits (note 8a)	5,292	4,629
	26,329	21,446
Long-term liabilities:		
Employee future benefits (note 8a)	9,018	9,087
Net Assets	213,217	205,881
Total Liabilities and Net Assets	248,564	236,414

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, 2018

(in thousands of dollars)

	December 31, 2018	December 31, 2017
Utility Operations Revenues:		
Utility operations	203,716	190,918
Other Business	1,431	1,211
Total Operating Revenues	205,147	192,129
Operating Expenses:		
Salaries and benefits (note 8a and note 8b)	79,670	75,738
Other operating expenses	120,209	110,664
Amortization of tangible capital assets	2,342	2,590
Total Operating Expenses	202,221	188,992
Excess of revenue over expenses - Utility Operations	2,926	3,137
Interest from Investments and loans receivable	3,505	2,620
Loan Recovery (note 2)	912	-
Excess of revenue over expenses	7,343	5,757
Net Assets, opening balance	205,881	199,982
Adjustment to Net Assets (note 6)	(7)	142
Net Assets, ending balance	213,217	205,881

see accompanying notes to financial statements

Statement of Cash Flows for the year ending December 31, 2018

(in thousands of dollars)

	December 31, 2018	December 31, 2017
Cash Provided by (used for) Operating Activities		
Excess of revenue over expense-Utility Operations	2,926	3,137
Items Not Affecting Cash		
Amortization of Tangible Capital Assets	2,342	2,590
(Decrease) in future employee benefits expense	(69)	(677)
	5,199	5,050
Changes in non-cash operating working capital		
Accounts Receivable	(2,574)	(7,774)
Prepaid Expenses	(3,584)	3,429
Accounts Payable and Accrued Liabilities	4,220	(4,335)
Legislated Severance	663	631
	(1,275)	(8,049)
Net Cash Flows from operating activities	3,924	(2,999)
Cash from Investing Activities		
Interest	3,505	2,620
Principal Repaid on Loans	148	549
Decrease (Increase) in non-current Term Deposits	15,011	(15,626)
Loan Recovery	912	-
Net cash flows from investing activities	19,576	(12,457)
Cash Used in Capital Activities		
Tangible Capital Assets Acquired	(4,170)	(1,390)
Cash Used in Financing Activities		
Changes in Net Assets	(7)	142
Increase (Decrease) in Cash and Short-Term Investments	19,323	(16,704)
Cash and Short-Term Investments, Opening Balance	26,087	42,791
Cash and Short-Term Investments, Closing Balance	45,410	26,087

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.

Notes to Financial Statements
December 31, 2018

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>
2019	67
2020	47
2021	18
2022	19
2023	14
	165
Less: Current portion	(67)
	98

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 2018, the Agency recovered \$0.9 million 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.

**Notes to Financial Statements
December 31, 2018**

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	13,049
Term deposits due within a year (Interest rates 1.72 percent-2.61 percent)	<u>32,361</u>
Cash and Short-Term Investments	45,410
Term deposits due within two years (Interest rate 2.50 percent - 3.05 percent)	<u>32,386</u>
	<hr/> 77,796

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	32,366
61-90 days	1,074
91-120 days	519
121-150 days	484
More Than 151 days	945
Total Net Accounts Receivable Municipalities and Other Customers	<hr/> 35,388

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, 2018, three accounts were considered impaired. The outstanding balances totaled to \$0.4 million (2017 - \$0.7 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, 2018**

4. TANGIBLE CAPITAL ASSETS

<i>(in thousands of dollars)</i>	Cost	Accumulated Amortization	Net December 31, 2018	Net December 31, 2017
Computer Software	7,457	4,241	3,216	3,113
Information Systems	1,915	1,559	356	775
Furniture and Fixtures	158	108	50	47
Automotive Equipment	4,202	3,706	496	608
Computer Hardware	3,243	2,225	1,018	1,113
Machinery and Equipment	883	440	443	380
Leasehold Improvements	343	273	70	124
Software under Development	2,339	-	2,339	-
	20,540	12,552	7,988	6,160

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, 2018, \$4.4 million was spent, of which \$2.3 million has been capitalized.

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>
2019	3,145
2020	2,123
2021	1,311
2022	795
2023	241
	7,615

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.

Notes to Financial Statements
December 31, 2018

(b) Letters of Credit

The Agency has lines of credit with the Royal Bank of Canada for \$50 million. As of December 31, 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. 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 \$14.3 million (2017 - \$13.7 million) of which \$5.3 million (2017 - \$4.6 million) has been classified as current liability. The amount charged to the income statement in 2018 was \$0.1 million (2017 - \$1.0 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 \$3.6 million (2017 - \$2.9 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, 2017.

It is management's opinion that the balance at December 31, 2018 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.

(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 \$5.0 million (2017 - \$4.6 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 \$3.8 million (2017 - \$2.2 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 \$2.2 million (2017 - \$1.7 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 \$0.6 million (2017 - \$0.2 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.

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- (iv) The Agency received revenue of \$0.026 million (2017 - \$0.013 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.
- (v) The Agency received funds of \$0.1 million from the Independent Electricity System Operator, for the Pay for Performance pilot project.
- (vi) The Agency has a \$120 million loan receivable with Ontario Infrastructure and Lands Corporation (OILC), as described in note 3c.
- (vii) 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.

9. SUBSEQUENT EVENTS

In January 2019, the Agency entered into a lease for its head office located at 2085 Hurontario Street, Mississauga. The new lease is for a period of 10 years with minimum lease payments totaling approximately \$5.4M over this time period. The lease begins on July 1, 2020 and ends on June 30, 2030. The current lease is set to expire on April 30, 2020. OCWA's head office will relocate to Mississauga in 2020.