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

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, 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.

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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
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

S. Odendahl

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:

(12 Mths Beginning January)	*(in thousands of dollars)*
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:

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

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:

	(in thousands of dollars)
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.

4. TANGIBLE CAPITAL ASSETS

(in thousands of dollars)	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:

	(in thousands of dollars)
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.