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 audited 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	Helen Bao Vice-President, Finance

Toronto, Ontario
April 15, 2021

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, 2020 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, 2020, 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
April 15, 2021

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

2020 FINANCIAL STATEMENTS

Statement of Financial Position as at December 31, 2020

(in thousands of dollars)

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and short-term investments (note 3a)	43,607	53,352
Accounts receivable, net		
Municipalities and other customers (note 3b)	44,197	42,594
Other Ministries	1,239	826
Harmonized sales tax receivable	12,511	4,593
Prepaid Expenses	1,168	1,113
Current portion of investments receivable for water and wastewater facilities (note 2)	1,156	247
	103,878	102,725
Non-current assets:		
Investments in term deposits and other notes (note 3a)	31,487	23,761
Investments receivable for water and wastewater facilities (note 2)	33	51
Loan receivable - Ontario Infrastructure and Lands Corporation (note 3c)	120,000	120,000
Tangible Capital Assets, net (note 4)	11,466	11,535
	162,986	155,347
Total Assets	266,864	258,072
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	21,399	21,196
Current portion of employee future benefits (note 8a)	6,439	6,265
	27,838	27,461
Long-term liabilities:		
Employee future benefits (note 8a)	6,172	7,757
Net Assets	232,854	222,854
Total Liabilities and Net Assets	266,864	258,072

Commitments and Contingencies (note 5)(note 7)

see accompanying notes to financial statements

On behalf of the Board

Sandra Odendahl

Director

Director

Statement of Operations and Changes in Net Assets for the year ending December 31, 2020

(in thousands of dollars)

	December 31, 2020	December 31, 2019
Utility Operations Revenues:		
Asset Operations & Maintenance Services Revenue	216,504	206,508
Other Client Utility Management Services Revenue	6,135	7,042
Total Operating Revenues	222,639	213,550
Operating Expenses:		
Salaries and benefits (note 8a and note 8b)	83,847	81,862
Other operating expenses (note 10)	128,178	123,712
Amortization of tangible capital assets	3,364	2,668
Total Operating Expenses	215,389	208,242
Excess of revenue over expenses - Utility Operations	7,250	5,308
Interest from Investments and loans receivable	2,750	4,318
Loan Recovery (note 2)	-	17
Excess of revenue over expenses	10,000	9,643
Net Assets, opening balance	222,854	213,217
Adjustment to Net Assets (note 6)	-	(6)
Net Assets, ending balance	232,854	222,854

see accompanying notes to financial statements

Statement of Cash Flows for the year ending December 31, 2020

	(in thousands of dollars)	
	December 31, 2020	**December 31, 2019**
Cash Provided by (used for) Operating Activities		
Excess of revenue over expense-Utility Operations	7,250	5,308
Items Not Affecting Cash		
Amortization of Tangible Capital Assets	3,364	2,668
(Decrease) in future employee benefits expense	(1,585)	(1,261)
	9,029	6,715
Changes in non-cash operating working capital		
Accounts Receivable	(9,934)	(9,822)
Prepaid Expenses	(55)	3,311
Accounts Payable and Accrued Liabilities	203	159
Current portion of future employee benefits	174	973
	(9,612)	(5,379)
Net Cash Flows from operating activities	(583)	1,336
Cash from Investing Activities		
Interest	2,750	4,318
Principal Repaid on Loans/ (Holdback)	109	(133)
Increase in non-current Term Deposits and other notes	(7,726)	8,625
Increase in Investments receivable for water and wastewater facilities	(1,000)	-
Loan Recovery	-	17
Net cash flows from investing activities	(5,867)	12,827
Cash Used in Capital Activities		
Tangible Capital Assets Acquired	(3,295)	(6,215)
Cash Used in Financing Activities		
Changes in Net Assets	-	(6)
Increase (Decrease) in Cash and Short-Term Investments	(9,745)	7,942
Cash and Short-Term Investments, Opening Balance	53,352	45,410
Cash and Short-Term Investments, Closing Balance	43,607	53,352

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 Investments

Cash and investments are recorded at cost. Accrued interest is recorded in accounts receivable and recognized on an accrual basis when earned.

(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.

Other client utility management services revenue consists of revenue for additional work for clients outside the scope of the operations and maintenance contract, such as capital repairs on equipment, project management services, and engineering services. Revenue is recognized when the costs are incurred.

(d) Financial Instruments

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

All financial instruments have been valued at cost.

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

A Statement of Re-measurement of Gains and Losses has not been prepared because all financial instruments are valued at cost.

(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 allowance for doubtful accounts receivable and investment receivable, 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 of 2.7 percent. Scheduled principal repayments of the investments are as follows:

(12 Months Beginning January)	*(in thousands of dollars)*
2021	1,156
2022	19
2023	14
	1,189
Less: Current portion	(1,156)
	33

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. The Agency has recovered a total of $0.929 million in prior years, which has been reflected as a reduction of the allowance for loan impairment. Subsequent to year end, the Agency and the debtor negotiated partial repayment. In March 2021, the Agency was paid $1 million and this amount has been reflected as a reduction of the allowance for loan impairment and a reduction to bad debt expense included in Other Operating Expenses in the Statement of Operations and Change in Net Assets. The remaining negotiated payment is expected to be received in 2021.

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 $75.1 million invested in bank balances, term deposits and other notes as follows:

	(in thousands of dollars)
Cash Balances	12,526
Term deposits due within a year (Interest rates 2.18%-2.48%)	31,081
Cash and Short-Term Investments	**43,607**
Term deposits and other notes due within two to five years (Interest rates 2.05% - 5.58%)	31,487
	75,094

The fair value of the bank balances, term deposits and other notes approximates carrying value. Term deposits and notes include various financial instruments such as GIC's and fixed coupon notes.

(b) Credit Risk

Credit risk is the risk of financial loss if a debtor fails to repay their loans and accounts receivable. The maximum exposure to credit risk consists of the total of cash and 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 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)	
	2020	2019
0-60 days	**36,818**	36,881
61-90 days	**817**	1,998
91-120 days	**684**	1,763
121-150 days	**484**	317
More Than 151 days	**5,394**	1,635
Total Net Accounts Receivable Municipalities and Other Customers	**44,197**	42,594

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, 2020, one account was considered impaired. The outstanding balances totaled to $0.1 million (2019 - $0.1 million). Net Accounts Receivable includes an Allowance for Doubtful Accounts which is based on a provision for 25% of Accounts Receivable aged greater than 60 Days less amounts received subsequent to year end. The Agency believes that this policy mitigates the risk of incorrect provision.

(c) Interest Rate 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, the Agency is exposed to a cash flow risk related to the fluctuations in interest rates.

(d) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Agency is exposed to market risk as the returns of two investments totaling $7.9 million are linked to a market index (S&P/TSX Composite Low Volatility Index). Additionally two other investments totaling $5.1 million are callable by the financial institution when the market index (Solactive Equal Weight Canada Banks 5% AR Index) rises to a predetermined level. The principal of the latter two investments are protected to a predetermined level when the market index declines with exposure to loss of principal if the market index falls below this predetermined level at the maturity date. The Agency believes market risk is not significant because of the low index volatility.

(e) 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 or liquidity risk on its financial instruments.

4. TANGIBLE CAPITAL ASSETS

(in thousands of dollars)	Cost	Accumulated Amortization	**Net Dec 31, 2020**	Net Dec 31, 2019
Computer Software	12,896	6,544	**6,352**	5,166
Information Systems	1,584	1,490	**94**	164
Furniture and Fixtures	314	92	**222**	39
Automotive Equipment	3,428	3,118	**310**	540
Computer Hardware	5,772	3,254	**2,518**	2,035
Machinery and Equipment	1,028	735	**293**	388
Leasehold Improvements	2,081	476	**1,605**	1,296
Software Under Development	72	0	**72**	1,907
	27,175	15,709	**11,466**	11,535

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. This budget was revised to $33.8 million and approved by the Board in December 2020 due to the addition of several new projects. The BTP is focused on strategic investments in infrastructure, IT systems and business practices. As at December 31, 2020, $11.04 million was spent, of which $8.11 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:

	(in thousands of dollars)
2021	3,330
2022	2,805
2023	2,206
2024	1,817
2025	1,363
Thereafter	5,689
	17,210

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 $5.4 million over this time period. The lease begins on July 1, 2020 and ends on June 30, 2030. The Agency's head office relocation to Mississauga was completed in August 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, 2020, $18.9 million (2019 - $16.9 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 $12.6 million (2019 - $14.0 million) of which $6.4 million (2019 - $6.3 million) has been classified as current liability. The amount charged to the income statement in 2020 was $1.36 million (2019 - $0.9 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 $5.6 million of which $3.7 million is long term. The long term portion was calculated based on the following assumptions: discount rate of 2.37% (2019 -2.39%) and estimated years to retirement for each employee. Due to policy changes for these benefits, no assumption of wage and salary escalation was used (2019 – 0%). These assumptions are management's best estimate.

Included in employee future benefits obligation is an estimated workers compensation obligation in the amount of $2.1 million (2019 - $3.0 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, 2019.

It is management's opinion that the balance at December 31, 2020 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 $5.5 million (2019 $5.3 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:

The Agency received revenue of $2.4 million (2019 - $2.5 million) from the Ontario Infrastructure and Lands Corporation (OILC) for water and wastewater treatment services provided. The services were provided at competitive rates similar to those of other clients.

The Agency received revenue of $1.9 million (2019 - $1.2 million) from the Ministry of the Environment, Conservation and Parks (MECP) for water and wastewater treatment services provided. The services were provided at competitive rates similar to those of other clients.

The Agency received revenue of $1.4 million (2019 - $1.3 million) from the Ministry of Energy, Northern Development and Mines (MENDM) for water and wastewater treatment services provided. The services were provided at competitive rates similar to those of other clients.

The Agency received funds of $0.2 million (2019 - $0.3 million) from the Independent Electricity System Operator, for the Pay for Energy Incentive Program.

The Agency received revenue of $0.037 million (2019 – $0.031 million) from the Ministry of Natural Resources and Forestry (MNRF) for water and wastewater treatment services provided. The services were provided at competitive rates similar to those of other clients.

The Agency received funds of $0.1 million (2019 - $0.0 million) from the Ontario Centre of Excellence, for the Stratford Net Zero program.

The Agency received funds of $0.037 million (2019 - $0.0 million) from the Ontario Power Generation, for the operation and maintenance of Wesleyville Lagoon.

The Agency received funds of $0.001 million (2019 - $0.10 million) from the Infrastructure Ontario, for the Bluewater Lagoon Support.

The Agency received funds of $0.005 million (2019 - $0.0 million) from the Grand River Conservation Authority, for the Byng Island Lagoon Treatment.

The Agency has a $120 million loan receivable with Ontario Infrastructure and Lands Corporation (OILC), as described in note 3c.

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.

10. OTHER OPERATING EXPENSES

The following is a breakdown of various expenses included in Other Operating Expenses:

	(in thousands of dollars)	
	2020	2019
Chemicals and Water Treatment	**22,108**	18,948
Electricity	**7,254**	7,443
Maintenance	**46,346**	45,017
Materials	**24,070**	23,032
Services	**28,004**	28,456
Transportation	**396**	816
	128,178	123,712

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the basis of the financial statement presentation adopted in the current year.