



ONTARIO **FINANCING** AUTHORITY

2014

Annual Report

ONTARIO FINANCING AUTHORITY

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Mandate

The Ontario Financing Authority (OFA) was established by the *Capital Investment Plan Act, 1993* (CIPA), and performs the following activities:

- conducts borrowing, investment and financial risk management for the Province of Ontario (the Province);
- manages the Province's debt;
- provides centralized banking and cash management and other financial services for the Province;
- advises ministries, Crown agencies and other public bodies on financial issues;
- assists Crown agencies and other public bodies in borrowing and investing;
- acts as an intermediary for the Province in lending to certain public bodies;
- invests on behalf of certain public bodies;
- with Ontario Power Generation Inc. (OPG), manages the investment activities of OPG's Used Fuel Segregated Fund and Decommissioning Segregated Fund; and
- carries out the day-to-day operations of Ontario Electricity Financial Corporation (OEFC) and provides a broad range of financial services to Infrastructure Ontario.

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Statement from the Chair and the Chief Executive Officer

The OFA successfully completed its annual borrowing program in 2013–14, despite ongoing challenges that linger in the global financial markets. We raised \$36.0 billion on behalf of the Province and OEFC, and met or exceeded the performance targets for domestic and foreign borrowing. Total savings relative to the performance benchmarks for money market and debt management activities were approximately \$20 million.

In 2013–14, the OFA successfully completed the evaluation and award of the approximately \$250 million tender for credit and debit card acquiring services for the Province. The OFA also provided a comprehensive submission on behalf of Ontario to the Public Sector Accounting Board resulting in an extension of the Financial Instruments standard's implementation deadline by one year to April 1, 2016.

During the 2013–14 fiscal year, the OFA continued the review of business cases for borrowing requests from public bodies, such as colleges, school boards and Crown corporations, resulting in loans to public bodies totalling \$789 million. We also provided financial advice on government initiatives related to the electricity sector, a loan guarantee program to facilitate Aboriginal participation in energy infrastructure projects and analysis and advice with respect to a number of Infrastructure Ontario projects.

In 2014–15, the OFA will continue to provide cost-effective borrowing, debt management and other financial services for the Ontario government. To meet the Province's borrowing requirements, we will continue to be flexible, monitoring domestic and international markets, issuing bonds in different terms and currencies and responding to investor preferences. We also plan on issuing green bonds in the domestic market. Diversification of borrowing sources will continue to be a primary objective in 2014–15. Depending on market conditions, the OFA plans to borrow at least 70 per cent in the Canadian-dollar market in 2014–15. This is in line with the historical average of issuing approximately three-quarters in that market, but represents a considerable decline in the reliance on foreign markets during global financial crisis beginning in 2008, and the European sovereign debt crisis. The OFA will also continue to engage in public-sector financing initiatives and provide advice and support on financial aspects of electricity sector developments.

We would like to thank the OFA staff for their hard work and the members of the Board of Directors for their advice and oversight during the 2013–14 fiscal year. We look forward to working with both staff and the Board in 2014–15.



Steve Orsini
Chair



Gadi Mayman
Chief Executive Officer

Management's Discussion and Analysis

Capital Markets Activities

Borrowing and Debt Management

Financial Reporting and Treasury Services

Financial Advice

Management's Discussion and Analysis

This section details management's discussion and analysis of the results achieved by the OFA for the Province in 2013–14 and its objectives for 2014–15.

Capital Markets Activities

Borrowing Program

Long-term borrowing for 2013–14 totalled \$36.0 billion, including \$2.6 billion in preborrowing for 2014–15, and took advantage of the continuing low interest rate environment and strong demand for Ontario bonds. The weighted-average term to maturity of long-term Provincial debt issued has been extended significantly over the past four years. It was 13.6 years in 2013–14, 12.4 years in 2012–13, 13.0 years in 2011–12 and 12.8 years in 2010–11. This is much longer than the 8.1 year term in 2009–10. This continuation of the extension of the term to maturity allowed the Province to lock in low interest rates for a longer period, which reduces refinancing risks and helps offset the impact of expected higher interest rates on the Province's Interest on Debt (IOD) costs.

Strong global investor demand for Canadian-dollar assets, the liquidity of Ontario benchmark bonds and continuing confidence in the Province allowed Ontario to borrow 82 per cent in the Canadian-dollar market in 2013–14, up from 72 per cent in 2012–13 and well above the target to issue at least 70 per cent as set out in the Province's *2013 Budget*.

Investments

The OFA manages the Province's liquid reserve portfolio to optimize investment returns and to ensure sufficient funds are available to meet cash requirements. The average level of unrestricted liquid reserves in 2013–14 was \$24.9 billion. In the normal course of business, the Province may pledge or receive collateral for derivative transactions and repurchase agreements. Unrestricted liquid reserves are a more prudent measure of total liquid reserves as pledged collateral is netted out of the total liquid reserves calculation.

The OFA also invests on behalf of certain public bodies to help increase their returns by streamlining investment processes and reducing investment costs. In 2013–14, the OFA provided investment services to a number of agencies, boards, commissions and other public bodies, including Infrastructure Ontario, the Pension Benefits Guarantee Fund, Ontario Trillium Foundation, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario. Total funds managed were \$3.2 billion.

With OPG, the OFA continued to manage the investment activities of OPG's Used Fuel Segregated Fund and the Decommissioning Segregated Fund established under the Ontario Nuclear Funds Agreement (ONFA). As at March 31, 2014, the combined market value of the funds was \$15.8 billion compared to \$13.6 billion at March 31, 2013 and \$4.9 billion when the funds were formally established in 2003.

There are currently 22 external investment managers retained to invest ONFA funds in bonds, equities and global infrastructure. For the 12 months ending March 31, 2014, the funds' rate of return was 15.33 per cent, ahead of the market benchmark of 12.07 per cent. Since inception, the funds have returned 7.57 per cent annualized, outperforming the long-term target annualized rate of return of

5.17 per cent. This target is a real rate of return of 3.25 per cent annually, calculated by adding 3.25 to the rate of change in the Ontario Consumer Price Index.

Borrowing and Debt Management

The OFA manages the debt of the Province and OEFC.

Total debt, which represents all borrowing without offsetting financial assets, was \$295.8 billion, interim as at March 31, 2014, compared to \$281.1 billion as at March 31, 2013, and a forecast of \$290.9 billion in the *2013 Budget*.

Ontario's net debt is the difference between total liabilities and total financial assets. Ontario's net debt is projected to be \$269.2 billion as at March 31, 2014 (March 31, 2013, \$252.1 billion). This projection for March 31, 2014 is \$3.6 billion below the forecast of \$272.8 billion in the *2013 Budget*. It includes the broader public sector's (BPS) net debt of \$14.2 billion (March 31, 2013, \$13.9 billion).

Prudent risk management policies and practices mitigate the financial risks inherent in managing large debt and liquid reserve portfolios. A variety of financial instruments, such as swaps and options, are used to manage exposures to fluctuations in interest rates and foreign currency exchange rates. The OFA uses derivatives for hedging purposes to manage its foreign exchange and interest rate risks. The OFA's derivatives policy does not permit the creation of leverage using derivatives. The Province's financial risks are monitored on a continuous basis, and these risk exposures are marked-to-market daily and audited annually.

Risk management policies are reviewed annually and amendments are approved by the Board.

Performance

The OFA monitors and measures the performance of the borrowing, debt management and liquid reserve programs. In 2013–14, total savings relative to benchmarks used for the latter two programs was approximately \$20 million.

The performance of long-term fixed rate borrowing for 2013–14 is measured by comparing the all-in borrowing cost against the statistical distribution of benchmark interest rates observed during the year, with the objective being to attain a low percentile rank. Regular long-term fixed rate borrowing achieved a 43 percentile rank, better than the target range of 45–55. Strategic foreign borrowings, which are large debt issues swapped to Canadian dollars, achieved a 58 percentile rank, within the target range of 50–75 percentile established for that program.

The debt management program's performance is evaluated based on a comparison of program savings to a risk-based performance target with \$9 million in gains or more deemed to be first quartile. In 2013–14, the debt management program experienced a gain of \$50 thousand.

Total Debt Composition

C \$295.8 Billion

■ Domestic Bonds	\$198.9B (67%)
■ International Bonds	\$62.8B (21%)
■ Treasury Bills and U.S. Commercial Paper	\$21.2B (7%)
■ Non-Public Debt	\$12.9B (4%)



The performance of liquid reserve investments (money market program) is measured relative to the returns of a custom benchmark with a term of approximately 60 days. The target is ± 2 basis points relative to the benchmark. The program returned 8 basis points more than the benchmark. Actual liquid reserve investment performance was \$20 million better than the benchmark for 2013–14.

Market Risk

Market risk is the risk of loss due to changes in interest and foreign exchange rates.

The OFA aims for a balanced debt maturity profile for the Province to mitigate the interest rate risk inherent in refinancing maturing debt and the floating-rate debt. The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign-exchange exposure of 5 per cent of debt issued for Provincial purposes.

The interim percentage of interest rate resetting exposure (net of liquid reserves) was 11.0 per cent of debt as at March 31, 2014. The interim foreign exchange exposure was 0.4 per cent of debt as at March 31, 2014.

All exposures were well within the Province's approved policy limits during 2013–14.

Credit Risk

Credit risk is the risk of loss due to default of bond issuers or counterparties of derivatives or other financial transactions. The lowest acceptable credit rating of counterparties for Ontario is A–. However, Ontario typically enters into swap transactions with new counterparties rated AA– or higher. Ontario's hedging transactions related to international borrowing result in credit risk exposure to our derivative counterparties. In order to manage and mitigate credit risk associated with derivative transactions, the Province has negotiated swap collateral agreements known as Credit Support Annexes (CSAs) with many of its derivatives counterparties. A CSA is a bilateral agreement between two parties that provides the terms and conditions for posting collateral in order to offset the credit exposure related to derivative transactions.

The Province's interim net credit risk exposure associated with the derivative portfolio as at March 31, 2014 was \$825 million, increasing from \$344 million as at March 31, 2013, largely due to an increase in exposure to counterparties without a CSA. Net credit risk exposure represents the loss that the Province would incur if every counterparty to which the Province had credit risk exposure were to default at the same time, less the mitigating impact of netting provisions as prescribed in contractual master agreements.

As at March 31, 2014, over 96 per cent of Ontario's credit exposure was to counterparties rated AA– or better, compared to almost 98 per cent as at March 31, 2013.

Liquidity Risk

Liquidity risk is the risk that liquid reserves will not be sufficient to meet the Province's cash requirements. This risk is controlled through the management of operational cash flows, liquid reserve levels and the short-term borrowing program.

The Province's Treasury bill and U.S. Commercial Paper programs have authorized limits of \$30.5 billion and \$11.5 billion, respectively. As at March 31, 2014, the outstanding borrowing under the Province's Treasury bill and U.S. Commercial Paper programs stood at \$12.3 billion and \$8.7 billion, respectively.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The OFA manages operational risks through divisional procedures and contingency plans as well as appropriate staffing and training, all of which are reviewed on an ongoing basis. The OFA's Business Continuity Plan ensures critical operations are completed in a timely manner in the event of an unforeseen business disruption.

The reliability of information technology (IT) and computing systems is crucial to ensure the OFA carries out its mandate efficiently and effectively. Excluding scheduled maintenance, the Strategic Corporate Services Division of the OFA met its service level commitment, and ensured that the IT systems were never down more than four times a year for a period greater than 30 minutes for each occurrence during normal business hours. Systems were maintained at a high level during 2013–14.

Credit Rating Agency Relations

The Province requires ratings from recognized credit rating agencies to issue debt in the capital markets. The OFA ensures credit rating agencies understand government policies and budget direction as well as economic and fiscal performance, and properly reflect these in their reports and decisions. Through the OFA, the Province maintains a one-window contact with the rating agencies to ensure information provided to them is consistent and coordinated.

Capital Markets and Borrowing and Debt Management Objectives for 2014–15

The OFA will continue to diversify the Province's domestic borrowing program using a combination of syndicated issues, bond auctions, floating-rate notes, medium-term notes and Ontario Savings Bonds. The organization also plans on issuing green bonds in the domestic market. These are expected to be issued at the same yield as Ontario's conventional bonds of comparable term and size. The Province plans to borrow at least 70 per cent in the Canadian-dollar market in 2014–15, retaining the same target as in the previous two fiscal years. This is in line with the historical average of issuing approximately three-quarters in that market, but represents a considerable decline in the reliance on foreign markets during the global financial crisis beginning in 2008. For example, in 2009–10, more than 50 per cent of the Province's issuance was in international markets.

Ontario will continue to be flexible, monitoring domestic and international markets, issuing bonds in different terms and currencies, and responding to investor preferences. Investor relations will remain a priority, with road shows planned for Canada, Europe and the U.S.

The Province will continue to hedge foreign exchange and interest rate risks when borrowing in international markets. This hedging process may become more complex due to regulatory reforms in the derivatives markets under the U.S. *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank), the European Market Infrastructure Regulation (EMIR), and Bank for International Settlements *Basel III*

regulations. These initiatives may increase the cost of hedging. Hedging may also become more expensive if proposals such as financial transaction taxes or mark-to-market derivatives taxes are legislated and implemented in Europe or the United States.

Cost-effective and prudent debt management strategies will continue to be key objectives in 2014–15. The OFA will comply with risk management policies and portfolio program limits approved by the Boards of Directors of the OFA and OEFC. Risk management policies will be reviewed and revised as required in response to an evolving regulatory and capital markets environment. On behalf of the Province, the OFA will continue negotiating CSAs with other major counterparties.

The OFA will also manage the Province's liquid reserves conservatively. With OPG, the OFA will continue to administer ONFA investments consistent with the objectives of ONFA, so the Province's contingent liabilities under ONFA are prudently managed. As well, the OFA will continue to invest on behalf of certain public bodies.

Financial Reporting and Treasury Services

The OFA successfully completed the evaluation and award of the approximately \$250 million twelve-year tender for credit and debit card acquiring services for the Province. The contract term was extended from the existing seven to twelve years to improve business and IT continuity and minimize operational disruptions. The longer term generated a high level of market interest along with very competitive bidding that provided value for money for the Province over the contract period.

The OFA continued to assist the Province in meeting its Payment Card Industry compliance goals including the recertification of the Ministry of Transportation in November 2013, the only ministry categorized as level two in a four level classification based on card transaction volumes.

The OFA also coordinated a response to the Public Sector Accounting Board (PSAB) on behalf of the borrowing communities of the provinces outlining the impact of the Financial Instruments standard on borrowing programs. It provided a detailed assessment of the specific impacts to Ontario's borrowing program from this particular standard for review by the PSA Board of Directors in their December 2013 meeting. Subsequently, PSAB extended the deadline for implementing the Financial Instruments standard by one year to April 2016.

The OFA continued to provide agency financial statements, as well as reporting of provincial debt, derivatives and investments. As in past years, the OFA's 2012–13 Financial Statements received an unqualified opinion from the Office of the Auditor General. The Auditor General's annual review of the OFA's financial reporting of the Province's debt and interest on debt continued to be free of material issues.

Financial Reporting and Treasury Services Objectives for 2014–15

For 2014–15, the OFA will work with the Office of the Provincial Controller and the Office of Chief Information Officer to develop and implement a ministry/central agency-wide structure that will ensure that the OPS continues to be PCI compliant. In addition, the OFA will work to implement the results of

the tender for debit/credit card acquiring services, a complex process that involves most ministries and Information Technology Divisions of the OPS.

The OFA will also work to identify and implement cost-effective and green alternatives to modernize service delivery and processing for ministries and agencies. Examples include the assessment and implementation of pre-paid cards as electronic benefit delivery mechanisms that will replace cheques as well as increasing ministry adoption of direct deposit to replace cheques.

The OFA will look to leverage the organization's successful efforts in extending the implementation deadline for the Financial Instruments Standard by collaborating with other provinces to appeal to PSAB to make changes to the standard that address the concerns of Ontario and the other provinces.

Along with the OFA's Capital Markets Division, Financial Reporting and Treasury Services will ensure a smooth and successful transition with regard to centralizing Infrastructure Ontario's borrowing functions with the OFA.

The OFA will continue to maintain a leading edge Business Continuity Plan to ensure that timely payments are made to the BPS (including hospitals, municipalities and school boards) to manage the Province's financial risks in real time, and to ensure that adequate funds are available to settle all of the Province's multibillion dollar financial transactions even in the event of unforeseen disruptions.

Financial Advice

The OFA was active in providing financial advice and implementation assistance to ministries, Crown agencies and other public bodies on corporate and electricity finance policies and initiatives.

In the *2012 Budget*, the Province announced that it was continuing to review ways to provide more efficient and effective public service delivery models and opportunities to maximize the returns on its major government business enterprises. The OFA assisted, and will continue to assist the Province in this review by providing financial analysis and advice with respect to potential opportunities for partnerships with the private sector and with respect to opportunities to maximize the returns on its government business enterprises and other assets.

Projects – Advisory Activities

The OFA continued to provide analysis and advice to the Working Committee on Hospital Working Fund Deficits on the development and implementation of appropriate accountability mechanisms in support of remedies for hospital working capital deficits.

The OFA continued to advise the Ministry of Economic Development, Trade and Employment on venture capital investments made by the Ontario Capital Growth Corporation through the Ontario Venture Capital Fund. This included providing advice on the structure of the new Northleaf Venture Catalyst Fund. The CEO of the OFA is a director on the board of Ontario Capital Growth Corporation.

The OFA continued to provide analysis and advice in respect of a number of Infrastructure Ontario projects. The CEO of the OFA is a director on the board of Infrastructure Ontario.

The OFA reviewed and provided advice on applications received under the government's Strategic Jobs and Investment Fund (SJIF) program, as well as on the due diligence process relating to the program. The CEO was a member of the SJIF committee.

Projects – Other Financial Services

The OFA's framework for financing public bodies mandates the OFA to provide long-term financing to school boards, colleges, hospitals and Provincial corporations, boards and commissions. Under this framework, the OFA provided new loans to a number of public bodies, including Ontario colleges, school boards and crown corporations totalling \$789 million in 2013–14.

The OFA provided advice to the Ministry of Natural Resources on work-out strategies for a number of forest sector companies that had received financial assistance under the government's forestry sector support programs.

The OFA provided advice and analysis on the Province's remaining auto sector holdings including the sale of Ontario's interest in 10 million General Motors shares.

The OFA also provided financial analysis and advice on initiatives and options to optimise the value of government assets, including real estate and operating enterprises.

The OFA, on behalf of the Province, has received a number of applications for the Province's Aboriginal Loan Guarantee Program, which are under review by staff and a third party due diligence provider. To date \$130 million has been guaranteed under the program, with two loan guarantees put in place in 2011–12 and two others in 2013–14.

The OFA provided services to OEFC, including facilitating loan agreements between OEFC and OPG to provide financing for general corporate purposes and electricity supply projects. The OFA also facilitated the replacement of a maturing loan agreement and credit facility between the OEFC and the Independent Electricity System Operator (IESO).

The OFA assisted in the continued implementation of ONFA, including reviewing OPG's 2014 annual budget for eligible expenditures under ONFA for nuclear waste management.

The OFA also provided analysis and advice to the Minister of Finance and the government to support electricity policies and initiatives, focusing on potential fiscal and economic impacts on the Province and OEFC, including the three-year extension of the Northern Industrial Electricity Rate Program, implementation of the Industrial Electricity Incentive (IEI), continued implementation of the Ontario Clean Energy Benefit (OCEB), initiatives for new and refurbished supply and the Minister of Finance's determination and reporting of the residual stranded debt.

Financial Advice Objectives for 2014–15

In 2014–15, the OFA will continue to provide financial advice and assistance to the Minister of Finance, ministries, Crown agencies and other public bodies on financial policies and initiatives.

Activities will include advising ministries and agencies on cost-effective financing policies and structures, comprehensive advice on structuring and implementing financial transactions and accurate determination of value-for-money benchmarks.

The OFA will also provide advice on measures to support government initiatives and to facilitate cost-effective borrowing by public sector organizations. Particular attention will be given to public infrastructure financing initiatives, include new transit projects and the preparation for the Pan American / Parapan Games that will be hosted in 2015.

The OFA will continue to provide financial advice on government asset optimization options and initiatives.

The OFA will continue to assist the government in monitoring the value of its remaining shares in General Motors and assessing options for and the appropriate timing of further share sales.

Financial analysis and advice will be provided to the Minister of Finance on the electricity sector and the impact of related policy initiatives on the Province's finances (including those of OEFC) and the economy. In addition, ongoing support will be provided for the implementation of ONFA, the Minister of Finance's determination of the residual stranded debt managed by OEFC, OCEB and the IEI.

As required, the OFA will advise on electricity supply and demand initiatives, including facilitating potential financing to OPG for supply initiatives.

The OFA will continue to provide analysis and advice to the Minister of Finance on applications to the Aboriginal Loan Guarantee Program.

The OFA will continue to provide analysis and advice as required for any proposed business support programs. In addition, the OFA will continue to provide analysis and advice where requested on transformation opportunities for ministries, Crown agencies and other public bodies.

Summary of Financial Results

The Ontario Financing Authority (OFA) manages the Province's debt and investment of liquid reserves, and recovers the cost of these services from the Province. The OFA also provides financial services to Crown agencies and other public bodies, and these costs are recovered on a fee-for-service basis.

The outstanding balance of the loans to public bodies at March 31, 2014 was \$5,974 million, a net increase of \$478 million from \$5,496 million in March 2013 (Note 5). The increase is largely due to additional loans to the School Boards of \$536 million and Colleges of Applied Arts and Technology of \$62 million and Ottawa Convention Centre of \$2 million. These increases are partially offset by repayments from the Ontario Lottery and Gaming Corporation of \$60 million; the Ontario Infrastructure and Lands Corporation of \$48 million; the University of Ontario Institute of Technology of \$4 million; the Ontario Northland Transportation Commission of \$4 million; the Corporation of the City of Windsor of \$3 million; the Royal Ontario Museum of \$2 million; and the Centennial Centre of Science and Technology \$1 million.

The OFA continued to provide investment management services to other public bodies in the aggregate amount of \$3,154 million (March 2013 – \$2,900 million) (Note 6).

The OFA recovered operating costs from agencies and related parties amounting to \$4.7 million for the year ended March 31, 2014 (March 2013 – \$4.6 million) (Note 6). The OFA's operating surplus for the year amounted to \$3.3 million (March 2013 – \$3.0 million) from the retention of the interest rate spread on loans to public bodies.

Prudent financial management on the part of the OFA ensured that actual expenditures continued to be below the budget resulting in cost recoveries from the Province of \$1.6 million lower the budgeted amount. Interest revenue was \$0.7 million greater than the budget contributing to an equal increase in the annual operating surplus.

Financial Statements

Responsibility for Financial Reporting

Auditor's Report

Statement Of Financial Position

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Financial Statements

Responsibility for Financial Reporting

The accompanying Financial Statements of the OFA have been prepared in accordance with Canadian public sector accounting standards. The preparation of the Financial Statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The Financial Statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 11, 2014.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Risk Management Committee of the Board.

The Board, through the Audit and Risk Management Committee, is responsible for ensuring management fulfils its responsibilities for financial reporting and internal controls. The Audit and Risk Management Committee meets periodically with management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board.

The Financial Statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the Financial Statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of management:



Gadi Mayman
Chief Executive Officer



Ken Kandeepan
Chief Financial Officer

Auditor's Report



**Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario**

Independent Auditor's Report

**To the Ontario Financing Authority
and to the Minister of Finance**

I have audited the accompanying financial statements of the Ontario Financing Authority, which comprise the statement of financial position as at March 31, 2014, and the statements of operations, change in net assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Financing Authority as at March 31, 2014 and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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Toronto, Ontario
June 13, 2014

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

ONTARIO FINANCING AUTHORITY
Statement of Financial Position
As at March 31, 2014

(in thousands of dollars)

	2014	2013
FINANCIAL ASSETS		
Cash	\$ 12,083	\$ 11,272
Due from agencies & related parties (Note 6)	2,604	2,400
Due from the Province of Ontario	1,780	1,706
	16,467	15,378
LIABILITIES		
Accounts payable	1,780	4,090
Due to the Province of Ontario - Recoveries	1,329	1,272
Deferred revenue (Note 3)	1,747	1,924
	4,856	7,286
Net financial assets	11,611	8,092
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 2)	1,487	1,674
Prepaid expenses	260	250
	1,747	1,924
Accumulated surplus	\$ 13,358	\$ 10,016

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors:



Steve Orsini
Chair



Gadi Mayman
Chief Executive Officer

ONTARIO FINANCING AUTHORITY
Statement of Operations
For the year ended March 31, 2014

(in thousands of dollars)

	2014	2014	2013
	Budget	Actual	Actual
REVENUE			
Cost recovery from the Province of Ontario (Note 4)	\$ 19,925	\$ 18,280	\$ 18,298
Cost recovery from Agencies & related parties (Note 6)	4,697	4,747	4,623
Amortization of deferred capital contributions (Note 3)	886	832	944
Interest revenue (Note 5)	2,665	3,342	4,011
	<u>28,173</u>	<u>27,201</u>	<u>27,876</u>
EXPENSES			
Salaries, wages and benefits	20,025	18,626	18,846
Interest on debt	-	-	1,043
Administrative and general	4,597	4,401	4,075
Amortization for tangible capital assets (Note 3)	886	832	944
	<u>25,508</u>	<u>23,859</u>	<u>24,908</u>
Operating surplus	2,665	3,342	2,968
Accumulated operating surplus at beginning of year	10,016	10,016	7,048
Accumulated operating surplus at end of year	<u>\$ 12,681</u>	<u>\$ 13,358</u>	<u>\$ 10,016</u>

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY**Statement of Change in Net Assets**

For the year ended March 31, 2014

<i>(in thousands of dollars)</i>	2014 Budget	2014 Actual	2013 Actual
Operating Surplus	\$ 2,665	\$ 3,342	\$ 2,968
Acquisition of tangible capital assets (Note 3)	(800)	(645)	(617)
Amortization of tangible capital assets (Note 3)	886	832	944
Prepaid expenses	—	(10)	(250)
Change in net financial assets	2,751	3,519	3,045
Net financial assets at beginning of year	8,092	8,092	5,047
Net assets at end of year	\$ 10,843	\$ 11,611	\$ 8,092

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY
Statement of Cash Flow
For the year ended March 31, 2014

<i>(in thousands of dollars)</i>	2014	2013
Operating transactions		
Annual Surplus	\$ 3,342	\$ 2,968
Amortization of Tangible Capital Assets	832	944
Decrease in due from agencies & related parties	(204)	(251)
(Increase)/decrease in due from the Province	(74)	140
Decrease in Accounts Payable	(2,310)	(377)
Increase in prepaid expenses	(10)	(250)
Increase in recoveries due to the Province	57	125
Decrease in deferred revenue	(177)	(82)
Cash provided by operating transactions	<u>1,456</u>	<u>3,217</u>
Capital transactions		
Cash used to acquire tangible capital assets	<u>(645)</u>	<u>(617)</u>
Cash applied to capital transactions	<u>(645)</u>	<u>(617)</u>
Increase in cash	811	2,600
Cash at beginning of year	<u>11,272</u>	<u>8,672</u>
Cash at end of year	<u><u>\$ 12,083</u></u>	<u><u>\$ 11,272</u></u>

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY

Notes to Financial Statements

For the year ended March 31, 2014

BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency, of the Crown, on November 15, 1993, by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario ("the Province");
- manages the Provincial debt;
- provides financial and centralized cash management services for the Province;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies to borrow and invest money;
- acts at the direction of the Province in lending to certain public bodies;
- invests on behalf of some public bodies;
- with Ontario Power Generation Inc. (OPG), manages the investment activities of OPG's Used Fuel Segregated Fund and Decommissioning Segregated Fund.

In addition, the OFA's objects include:

- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: Because the OFA is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards.

Tangible capital assets: Tangible capital assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below.

Furniture and equipment	5 years
Computer hardware	3 years
Leasehold improvements	Term of lease

Funding received from the Province and the Agencies for the acquisition of tangible capital assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the tangible capital assets.

Measurement uncertainty: The preparation of these financial statements requires management to make estimates that are based on the best information available at the time of preparation of the financial statements.

2. TANGIBLE CAPITAL ASSETS

The net book value (NBV) of tangible capital assets is as follows:

(in thousands of dollars)

	Cost	Accumulated Amortization	NBV March 31, 2014	NBV March 31, 2013
Furniture and equipment	\$ 1,065	\$ 1,039	\$ 26	\$ 115
Computer hardware	12,824	11,919	905	884
Leasehold improvements	1,808	1,252	556	675
Total	\$ 15,697	\$ 14,210	\$ 1,487	\$ 1,674

3. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province and the Agencies for the acquisition of tangible capital assets and the prepaid expenses to be allocated over the period the resources are consumed.

(in thousands of dollars)

	Tangible Capital Assets	Prepaid Expenses	Total
Balance, beginning of year	\$ 1,674	\$ 250	\$ 1,924
Additions	645	433	1,078
Amortization	(832)	—	(832)
Expensed in the current year	-	(423)	(423)
Balance, end of year	\$ 1,487	\$ 260	\$ 1,747

Amortization of \$832,000 represents the amortized amount of contributions received for the purchase of tangible capital assets. The \$423,000 expensed represents the amount allocated to the current year expenses from the prepaid expenses.

4. DEBT AND INVESTMENT MANAGEMENT FOR THE PROVINCE

The OFA manages debt amounting to \$295.8 billion, interim, as at March 31, 2014 (March 2013 – \$281.1 billion) and investments amounting to \$40.9 billion as at March 31, 2014 (March 2013 – \$44.8 billion) on behalf of the Province, including the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the *Ontario Nuclear Funds Agreement*. The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to set aside funds necessary to dispose of nuclear waste and used fuel and to decommission nuclear power stations. The agreement came into force on July 24, 2003.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2014 was \$18.3 million (March 2013 – \$18.3 million).

5. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in these financial statements.

Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating \$14.5 billion expiring from 2027 to 2040. Principal repayments received from public bodies by the OFA are forwarded to the Province. The interest rates charged to public bodies will generally be slightly higher than the rate charged on the advances from the Province to fund the loans ("the spread").

The OFA will generally retain a portion of the spread in order to recover the administrative costs of managing these loans. The spread retained by the OFA includes a cost recovery component and, where applicable, a proxy commercial interest rate spread. The inclusion of the proxy commercial spread results in an interest rate equivalent to what would be charged on the loan by a commercial lender and reflects the relative risk associated with the loan. During the year ended March 31, 2014, \$3.3 million in interest rate spread revenue was recognized (2013 – \$3.0 million) of which \$1.3 million is receivable at year end.

As at March 31, 2014, the principal amounts receivable by the OFA on behalf of the Province represent debentures and short term loans. In addition to the outstanding loans below, interest accrued on these loans amounted to \$95.0 million (March 2013 – \$89.5 million), of which \$93.7 million (2013 - \$88.4 million) will be flowed to the Province.

These are related party transactions, with the exception of those with the Corporation of the City of Windsor and the University of Ontario Institute of Technology.

(in thousands of dollars)

	March 31, 2014	March 31, 2013
Centennial Centre of Science and Technology	\$ 1,500	\$ 2,000
Colleges of Applied Art and Technologies	218,934	156,575
Corporation of the City of Windsor	13,097	15,906
Niagara Parks Commission	5,476	5,754
Ontario Infrastructure and Lands Corporation	25,000	73,000
Ontario Lottery and Gaming Corporation	32,279	92,466
Ontario Northland Transportation Commission	5,572	8,877
Ottawa Convention Centre Corporation	41,869	40,000
Royal Ontario Museum	35,507	37,843
School Boards	5,575,202	5,039,272
University of Ontario Institute of Technology	19,922	24,158
Total	\$ 5,974,358	\$ 5,495,851

Loans to Public Bodies by the Province:

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act, 1990*. The \$1.5 million (March 2013 – \$2.0 million) loan was made to fund the construction of the Agents of Change project, bears interest at 4.35 per cent and matures in March 2017.

Colleges of Applied Art and Technologies have been loaned \$218.9 million (March 2013 – \$156.6 million) for various campus projects including new and expanded student residences, computer equipment, parking facilities, and an energy saving capital project. These loans bear interest ranging from 1.81 per cent to 5.49 per cent and mature from 2015 to 2040.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility consisting of a provincial division courthouse and city police headquarters. This is a 20 year loan bearing interest at 6.41 per cent and maturing in March 2021. The outstanding balance is \$13.1 million (March 2013 – \$15.9 million).

The Niagara Parks Commission, a Crown agency of the Province, operating under *Niagara Parks Act, 1990*, has been provided a loan of \$5.5 million (March 2013 – \$5.8 million) to finance additional capital costs incurred for the redevelopment of phase I of Table Rock House in Queen Victoria Park, Niagara Falls. This bears interest at 5.07 per cent and matures in April 2027.

The Ontario Infrastructure and Lands Corporation (OILC) is a Crown agency of the Province under the *Ontario Infrastructure and Lands Corporation Act, 2011* and has been provided a Revolving Credit Facility to a maximum amount of \$200 million maturing in June 2019. OILC has drawn \$25.0 million (March 2013 – \$73.0 million) bearing interest at rates ranging from 1.59 to 2.59 per cent.

The Ontario Lottery and Gaming Corporation (OLG) is a Crown agency of the Province under the *Ontario Lottery and Gaming Corporation Act, 1999*, and has been provided loans totaling \$32.3 million (March 2013 – \$92.5 million) to fund several projects, bearing interest at rates ranging from 2.32 to 2.93 per cent and maturing from May 2016 to January 2018.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. ONTC's total borrowing of \$5.6 million (March 2013 – \$8.9 million) matures from 2014 to 2031 and bears interest ranging from 4.90 to 6.29 per cent.

The Ottawa Convention Centre Corporation (OCC) is a Crown agency of the Province under the *Capital Investment Plan Act, 1993*, and has been provided a loan of \$41.9 million (March 2013 – \$40.0 million) for the purpose of providing term debt to finance part of the construction of the Ottawa Convention Centre. This is a 25 year loan, bears interest at 4.67 per cent and matures in September 2036. Pursuant to a directive signed by the Minister of Finance on November 2, 2012, the Province provided OCC with a repayment deferral of principal and interest up to five years. Interest continues to accrue over the five year deferral period. The outstanding amount includes capitalized interest of \$1.9 million.

The Royal Ontario Museum (ROM) is a Crown agency of the Province under a Special Act of the Ontario Legislature and has borrowed \$35.5 million (March 2013 – \$37.8 million) comprised of \$5.8 million at fixed rate 5.04 per cent and \$29.7 million at a floating rate currently at 2.54 per cent. All outstanding loans are scheduled to be repaid by March 2027.

School boards have been provided loans under various programs beginning in 2006. During the year ended March 31, 2014, school boards were provided with additional loans and made semi-annual blended payments of principal and interest, leaving the total outstanding amount at \$5,575.2 million (March 2013 – \$5,039.2 million). These loans bear interest ranging from 2.42 to 5.38 per cent and mature from 2019 to 2039.

The University of Ontario Institute of Technology (UOIT) is a corporation established under the *University of Ontario Institute of Technology Act, 2002*. The Province has provided a 5 year term loan of \$19.9 million (March 2013 – \$24.2 million) bearing an interest rate at 2.77 per cent and matures in October 2017.

6. INVESTMENT AND DEBT MANAGEMENT FOR RELATED PARTY AGENCIES

- a. The OFA provides investment management services to the following related party agencies. Fees are aimed at recovering OFA costs and are charged on the basis of either the market or par value of the assets under management based on a range of up to 0.20 per cent.

Deposit Insurance Corporation of Ontario	Ontario Immigrant Investor Corporation
Northern Ontario Heritage Fund	Ontario Infrastructure and Lands Corporation
Ontario Capital Growth Corporation	Ontario Trillium Foundation
Pension Benefits Guarantee Fund	

Investments managed on behalf of these entities totaled \$3,154 million at March 31, 2014 (March 2013 – \$2,900 million).

- b. The OFA provides debt management services to the following related party agencies on a cost recovery basis:

Ontario Electricity Financial Corporation (OEFC)

The OFA provides financial services and advice on a cost recovery basis to OEFC and manages its debt portfolio of approximately \$26.1 billion (March 2013 – \$27.3 billion).

Ontario Infrastructure and Lands Corporation (OILC)

The OFA provides financial services and advice on a cost recovery basis to OILC and manages its debt of approximately \$5.8 billion (March 2013 – \$5.1 billion) including loans from the Province, a provincial agency and third parties.

- c. The total costs recovered and receivables outstanding for related party agencies at March 31, 2014 are set out below:

(in thousands of dollars)

	March 31, 2014	March 31, 2013
Costs Recovered:		
OEFC	\$ 3,541	\$ 3,471
OILC	946	936
Investment Management	260	216
Total	\$ 4,747	\$ 4,623
Receivables:		
OEFC	\$ 1,000	\$ 980
OILC	236	234
Investment Management	105	59
Interest Rate Spread (Note 6)	1,263	1,127
Total	\$ 2,604	\$ 2,400

7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The main risks that the Authority's financial instruments are exposed to are credit risk, liquidity risk and market risk. These risks are limited to the financial instruments reflected on the statement of financial position and do not extend to the financing provided to various public bodies, disclosed in note 6 to the financial statements.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Authority is exposed to credit risk relating to the collection of receivables from the Province of Ontario. The risk is minimal as most of the receivables are from the Province of Ontario.

The risk of not collecting the receivables related to OEFC, OILC and others is also considered to be minimal.

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its cash flow obligations as they fall due. The Authority's exposure to liquidity risk is minimal as all operating and capital expenses are cost recovered from the Province of Ontario.

Market risk

The market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Authority. The Authority is not exposed to market risk.

8. FUTURE EMPLOYEE BENEFITS

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan established by the Province of Ontario. The Ministry of Government Services (MGS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGS and is not reported in these financial statements.

9. COMMITMENTS AND CONTINGENCIES

Lease Commitment:

Future minimum annual rental payments for premises under operating leases are as follows:

(in thousands of dollars)

	March 31, 2014
2015	1,947
2016	1,947
2017	1,947
2018	487
Total	\$6,328

Committed Credit Facilities:

At the direction of the Province, the OFA has committed to finance a number of public bodies for which funds have not yet been advanced. The details are as follows:

The Deposit Insurance Corporation of Ontario (DICO) was provided a maximum \$400 million revolving credit facility to ensure DICO's capacity to address systematic difficulties in the credit union system or the failure of large institutions that require resources above those in the Deposit Insurance Reserve Fund (DIRF) which is currently valued at approximately \$169.5 million. All principal and interest is required to be repaid by December 31, 2029. As of March 31, 2014, DICO has not utilized this credit facility.

The Ontario Power Authority (OPA) was provided a maximum \$975 million credit facility to primarily fund the Regulated Price Plan variance account. This credit facility will expire on December 31, 2016. As at March 31, 2014, OPA has not drawn any funds from this facility.

Contingencies:

At March 31, 2014, there were no claims under which the OFA would be financially liable. The Province continues to guarantee the term deposits issued by the Province of Ontario Savings Office prior to 2003.

Corporate Governance

Corporate Governance

Financial Reporting Requirements

Board of Directors

Corporate Governance

Overview

The OFA is an agent of the Crown and is classified by Management Board of Cabinet as an operational enterprise agency.

Corporate governance at the OFA involves processes that permit the effective supervision and management of the OFA's activities by senior management, the Board of Directors supported by its Audit and Risk Management and Human Resources and Corporate Governance Committees, and the Minister of Finance. It includes identifying individuals and groups responsible for the Corporation's activities and specifying their roles.

Accountability and Responsibilities

The OFA's accountability structure flows from its governing statute, CIPA. The Minister of Finance is the minister responsible for the administration of CIPA with respect to the OFA. CIPA together with policies and directives issued by Management Board of Cabinet, the Minister of Finance, and the Public Service Commission form a framework under which the OFA is governed.

Each year, the Minister is required to submit the OFA Annual Report to the Lieutenant Governor in Council and then table the report in the Legislature. In addition, the Minister reviews and approves the OFA's annual business plan. The Minister also maintains communications with the OFA, through its Chair, regarding government policies and issues relevant to the OFA.

The Chair is accountable to the Minister of Finance for the performance of the OFA in fulfilling its mandate. CIPA provides that the Deputy Minister of Finance is the Chair of the OFA. The Chair is responsible for providing advice and information to the Minister with regard to the operation and affairs of the OFA. In addition, the Chair provides leadership to the OFA. As Deputy Minister of Finance, the Chair ensures organizational capacity in the Ministry to monitor the OFA and ensures that it manages its risks appropriately.

The Board is appointed by the Lieutenant Governor in Council and is accountable to the Minister through the Chair. The OFA Board performs a supervisory role, overseeing the management of the business and affairs of the OFA to ensure the OFA's mandate is fulfilled. The Board is comprised of both public servants employed by the Crown and independent directors. The Board meets at least quarterly and receives regular reports from the CEO and OFA staff concerning the operations of the OFA and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board-approved Code of Conduct.

There are also two committees of the Board to assist it in supervising the management of the OFA. The Audit and Risk Management Committee reviews and recommends approval by the Board of an annual internal audit plan and liaises with the OFA's internal auditors and the Auditor General of Ontario regarding financial reporting and internal controls. It also reviews financial policies and financial statements and recommends them to the Board. Another function of the Audit and Risk Management Committee is the review of the OFA's major risks and mitigation strategies. The Human Resources

Committee was created in 2006–07. In February 2013, the mandate of the Human Resources Committee was expanded and the Committee was renamed the Human Resources and Corporate Governance Committee. It assists the Board in ensuring appropriate measures are in place relating to compensation for staff in critical areas and corporate governance.

The CEO works under the direction of the Chair and the Board to implement policies and operational decisions, and reports the agency's performance to the Board. The CEO is responsible for managing the day-to-day operations and ongoing activities of the OFA, including the supervision of staff, in accordance with government policies.

The OFA's employees are appointed pursuant to the *Public Service of Ontario Act, 2006*.

Financial Reporting Requirements

The OFA prepares annual financial statements in accordance with Canadian public sector accounting standards. The financial statements are reviewed and recommended by the Audit and Risk Management Committee and approved by the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly in accordance with Canadian public sector accounting standards. The findings are reviewed by the Audit and Risk Management Committee and the Board. These audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included as a schedule to the Public Accounts of the Province. Unaudited financial statements are prepared quarterly and presented to the Audit and Risk Management Committee and the Board.

Internal Controls

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting, to safeguard the OFA's assets and to manage its liabilities.

In meeting its responsibility for the reliability and timeliness of financial information, the OFA uses a comprehensive system of internal controls, including organizational and procedural controls. The system of internal controls includes:

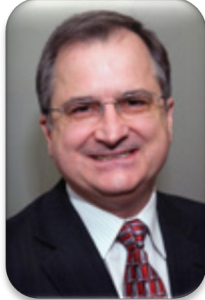
- comprehensive business planning;
- written communication of policies and procedures governing corporate conduct and risk management;
- segregation of duties;
- maintenance and retention of detailed records;
- responsible delegation of authority and personal accountability;
- careful selection and training of personnel; and
- regularly updated accounting and financial risk policies.

As part of its annual business plan, the OFA conducts an assessment of corporate-wide risks and develops appropriate mitigation strategies.

The Ontario Internal Audit Division of the Ministry of Finance develops an annual internal audit plan based on a review of the OFA's risk assessment and input from the OFA Audit and Risk Management Committee and Management. The internal audit plan is approved by the Board on the recommendation of the OFA Audit and Risk Management Committee. The Internal Audit Division reports to the OFA Audit and Risk Management Committee on the results of its audit work in the OFA.

Board of Directors

The following individuals were members of the Board in 2013–14:



Steve Orsini

Chair, OFA Board of Directors

Deputy Minister of Finance and Secretary of Treasury Board

Date of initial appointment to OFA Board of Directors: December 17, 2011 (Pursuant to the *Capital Investment Plan Act, 1993*, the Deputy Minister of Finance is the Chair of the OFA Board of Directors).

Steve was previously Deputy Minister of Revenue as well as Associate Deputy Minister, Office of Taxation, Agencies and Pensions in the Ministry of Finance. Steve played a leadership role in supporting the government's tax, benefits and pension reform agenda over the past few years.

Prior to returning to the Ministry of Finance in 2005, Steve held a number of positions at the Ontario Hospital Association, including Vice-President of Policy and Public Affairs.

Steve has extensive experience in the Ontario Public Service, having worked in the former Ministry of Treasury and Economics, the Service Sector Secretariat, the Ministry of Economic Development and Trade, and the Ontario Development Corporation.

Steve has a Bachelor of Applied Arts in Urban and Regional Planning and a Masters in Environmental Studies (Economic Development). He has also completed the Canadian Securities Course, two years of the CICA In-Depth Tax Course, and the Harvard University Health Care Leadership Program.

Note: Effective July 9, 2014, Steve Orsini was appointed Secretary of the Cabinet and Clerk of the Executive Council and ceased to be the Chair of the OFA Board of Directors. He was replaced as Chair of the OFA by Kevin French, Deputy Minister of Finance.



Mario Ferrara

Vice-Chair, OFA Board of Directors

Committees: Audit and Risk Management Committee, Member
Human Resources Committee, Member

Date of initial appointment to OFA Board of Directors: April 2005

End of Current Term: June 2016

Before his appointment to the OFA Board, Mario was Managing Director and Head of the Government Finance Group at Scotia Capital in Toronto. The Group provided a wide range of financial advice and executed financing transactions for the firm's government and government-related clients.

Mario's investment management experience includes senior positions in the private and public sector. As Vice-President, Investments at E-L Financial Corporation, he was head of the investment group with direct responsibility for managing the fixed-income portfolios of the company's life and casualty insurance subsidiaries. Prior to joining E-L Financial, Mario spent 12 years at Ontario Hydro in a number of finance-related positions including portfolio manager of the fixed-income assets of the Ontario Hydro Pension Plan. Later at Ontario Hydro, he was Assistant Treasurer-Corporate with responsibility for management, development and execution of funding plans, investor relations and corporate insurance.

Mario holds a Bachelor of Commerce and a Master of Business Administration from McMaster University.



Gadi Mayman

Chief Executive Officer, OFA

Date of initial appointment to OFA Board of Directors: August 2000

End of Current Term: April 2017

As CEO of the OFA, Gadi is responsible for the Province's borrowing and debt management strategy, and its banking and capital markets relationships. He is also CEO and Vice-Chair of OEFC.

Prior to joining the Ontario Ministry of Finance, Gadi worked at the Export Development Corporation in Ottawa and in the International Division of the TD Bank. He received a Bachelor of Applied Science in Industrial Engineering from the University of Toronto in 1981, and a Master of Business Administration from the University of Western Ontario in 1988.

Gadi is on the boards of Infrastructure Ontario and the Ontario Capital Growth Corporation, and is Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and OPG Committee.



John M. Beck

Committee: Audit and Risk Management Committee, Member

Date of initial appointment to OFA Board of Directors: January 2011

End of Current Term: January 2017

John is founder and Executive Chairman of Aecon Group Inc., Canada's largest publicly-traded construction and infrastructure development company. Aecon is a leader in providing services to private and public sector clients throughout Canada and internationally.

John began his career in 1963, after graduating from civil engineering at Montreal's McGill University.

In November 2008, John was cited by The Financial Post Magazine's "CEO Scorecard", as one of the top 20 most accomplished CEO's in Canada.

John is an active member of the business community. He was previously the Chairman of the Board of the Ontario Power Authority, a government agency with responsibility for planning and procuring all of the province's power needs. He has also served on a number of non-profit boards involved in charities, health, education and the arts.



Lorraine Bell, CPA, CA

Committees: Audit and Risk Management Committee, Member
Human Resources Committee Member

Date of initial appointment to OFA Board of Directors: October 2005
End of Current Term: January 2015

In addition to her OFA board appointment, Lorraine is also a Director and Chair of the Audit Committee, and member of the Governance Committee for Brookfield Real Estate Services Fund. She is also a Director and member of the Audit Committee of IBI Group. Lorraine has many years of experience in capital markets and in particular, derivatives. She was a Vice President and Director with General Re Financial Products Canada (GRFP), a derivatives organization. Prior to joining GRFP, she worked as a financial consultant, and was at a number of corporations including Prudential Global Funding and Citibank Canada. Before Citibank Canada, Lorraine was with Touche Ross and Co (now Deloitte and Touche) as a member of the audit group and she obtained her CA designation at that time.

She is an active volunteer and past Board member of a number of charitable organizations in Ontario. Lorraine is also a member of the Institute of Corporate Directors and a Director of the Associates of the University of Toronto, Inc.



Angela Holtham, FCPA, FCMA

Committee: Audit and Risk Management Committee, Chair

Date of initial appointment to OFA Board of Directors: February 2011
End of Current Term: February 2017

Angela retired after eight years as the Vice President, Finance, and CFO of The Hospital for Sick Children in Toronto. Prior to that, she held a number of positions in both the for-profit and not-for-profit sectors, including 20 years with Nabisco Canada, the last five of which she spent as Senior Vice President and CFO.

Angela holds a Master of Business Administration Degree from the University of Toronto, and a Bachelor of Mathematics Degree from the University of Waterloo. She is an FCPA, FCMA and holds the ICD.D directors designation.

Angela has held a number of Board positions including chair of the Board of CMA Ontario, and Board Director of Sprinkles Global Health Initiative.



Phil Howell

Committee: Audit and Risk Management Committee, Member

Date of initial appointment to OFA Board of Directors: September 2009

End of Current Term: June 2015

Phil was appointed the Chief Executive Officer and Superintendent, Financial Services Commission of Ontario effective August 19, 2009.

Previously, Phil served as the Deputy Minister of Economic Development for the Ontario government. Prior to that appointment, he was the Deputy Minister of Tourism. He moved to Tourism from the Ministry of Finance where he was the Associate Deputy Minister of Finance, responsible for Treasury Board.

Trained as an economist with post graduate training from the London School of Economics and the University of Toronto, Phil's career has spanned over thirty years in both the public and private sectors beginning with the Bank of Canada. His Ontario Public Service (OPS) career began in the Economic Policy Branch in the former Ministry of Treasury, Economics and Intergovernmental Affairs.

He left the OPS in the mid-1980s and during the following several years worked with a major Canadian brokerage house, the Conference Board of Canada and a chartered bank. Phil returned to the OPS as Director of the Industrial Policy Branch, Ministry of Industry, Trade and Technology where he spent several interesting and challenging years before returning to the Ministry of Finance as Director of the Taxation Policy Branch in 1999. Subsequently, he served as the ADM of the Office of Economic Policy and the Chief Economist for the Province.



Richard J. Kostoff

Committee: Human Resources Committee, Vice-Chair

Date of initial appointment to OFA Board of Directors: June 2007

End of Current Term: June 2016

Richard is the founder and Chair of Temple Rock Holdings, an active investment interest. He also is a former Deputy Chair of TD Securities Inc.

Richard is the current Chair of the OCAD University Foundation Board and a member of the Board of Governors. He is Vice Chair of Theatrefront, a non-profit group. Additional appointments include the advisory boards of CommunityLend, FemMed and Straen Inc.

Richard has also advised a number of government and corporate entities including Infrastructure Ontario, OP Trust and The Hospital for Sick Children.



Vincenza Sera

Committee: Audit and Risk Management Committee, Vice-Chair

Date of initial appointment to OFA Board of Directors: February 2011

End of Current Term: February 2017

Vincenza has been Chair of the Ontario Pension Board since 2007 having served as a board member since 2004.

Vincenza is a former investment banker with 25 years of expertise in capital markets, corporate finance and corporate governance; she has held senior positions with major Canadian firms, including National Bank Financial and CIBC. She is also a director of Equitable Group Inc. and DREAM Unlimited Corporation, and is a chair of DREAM Industrial REIT.

She holds a Master of Business Administration (Finance) from the University of Toronto, and an Honours Business Administration (Accounting) degree from the University of Windsor.

Vincenza has considerable experience on corporate and not-for-profit boards and is a member of the Institute of Corporate Directors.



Peter Kay

Committees: Audit and Risk Management Committee, Member; Human Resources Committee, Member

Date of Initial Appointment to OFA Board of Directors: May 2013

End of Current Term: May 2016

Peter Kay is a retired financial services executive. His career spanned 32 years with Canadian Imperial Bank of Commerce including 15 years as senior vice president and as deputy chair of the CIBC Pension Fund Committee.

Peter's experience in the financial sector covers a wide variety of areas including large-scale and structured lending, Eurobond finance, and merchant banking. Treasury-related areas include corporate and international finance, long term debt financing in the domestic Canadian, US and Euro-bond markets, and capital management and pension fund management.

Peter is a Trustee of the Upper Canada College Foundation, a charitable foundation for which he recently conducted an extensive governance review.

Peter was awarded a BSc in Engineering from the University of Toronto and an MSc in Management Science from Imperial College, University of London, England.

Total Annual Remuneration paid to the Board of Directors: \$38,525.00

Risk Management Policies and Procedures

OFA risk management policies and procedures provide for the management of risk exposures created by capital markets activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to the Province's debt and derivatives portfolios and capital markets transactions.

The policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada, the Bank for International Settlements and in consultation with Canadian bank representatives on their risk management practices.

The Board approves risk management policies and monitors the performance of capital markets activities.

Market Risk Policy

Market risk is the risk of financial loss attributed to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- **Foreign Exchange Limit:** unhedged foreign currency exposure is limited to 5 per cent of debt issued for provincial purposes. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.
- **Net Interest Rate Resetting Limit:** the interest rate resetting risk exposure is the sum of maturities and floating-rate debt (net of liquid reserves) over the next 12 months, and is limited to a maximum of 35 per cent of debt issued for provincial purposes.
- **IOD Loss Limit:** the total amount of financial losses resulting from market risk cannot exceed 3 per cent of budgeted IOD for a fiscal year. In addition, the CEO establishes a trigger level to ensure losses from market activities will not reach the debt cost loss limit.

The OFA identifies and quantifies current and potential exposures to market risk and ensures risk exposures and losses remain within approved exposure and loss limits. Exposure to market risk is measured and reported daily.

Credit Risk Policy

Credit risk is the risk of loss in which a counterparty does not meet or defaults on its obligations. Credit risk arises when the OFA undertakes financial and derivative transactions. The minimum credit rating of a counterparty for a new swap transaction is typically "AA-", and "R1-mid" (and "A-1" or "P-1") for money market investments. The resulting exposure is capped at mark-to-market limits depending on the counterparty's credit rating and capital base. Concentration limits are also in place to limit exposure. Credit exposure is measured and reported daily.

Policy on the Use of Derivatives and Other Financial Instruments

Use of derivatives and other financial instruments is restricted to those which the OFA can price and whose risk exposures can be measured by the OFA. Derivatives are used to manage exposures arising from existing and planned debt issues in a sound and cost-effective manner. Risks arising from the use of derivatives are monitored and managed prudently.

Risk Management Reporting Policy

At its regular quarterly meetings, the Board is kept informed of the OFA's activities:

- The CEO provides the Board with a progress report on the implementation of the Province's borrowing and debt management programs for the year, staffing and other administrative and operational matters. The CEO also reports on the OFA's compliance with applicable government directives.
- The Director of Risk Control reports on program exposures and performance as well as exceptions to policies.
- Management is kept informed of OFA's risk exposures and positions on a daily basis.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or external events. Each division manages operational risk through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA maintains a Business Continuity Plan (which covers OEFC's operations) that is regularly updated to facilitate the continuation of essential operational functions with a minimum of disruption in the event of an emergency.

Appendices

Ontario's Credit Ratings

Additional Sources of Information

Appendices

Ontario's Credit Ratings

A credit rating is a current assessment of the creditworthiness of a borrower with respect to a specified obligation. It indicates the capacity and willingness of a borrower to pay interest and principal in a timely manner.

Long-Term Ratings

Long-term ratings are assigned a letter grade ranging from investment grade, to speculative grade, to highly speculative or default. Ratings within each category may include a “+” or “-” (or a high or low) to indicate the relative strength of rating within that category. The current long-term ratings of the Province are as follows:

- Moody's Investors Service Aa2 (N)
- Standard & Poor's AA- (N)
- DBRS AA (low)

Short-Term Ratings

Short-term ratings are for debt maturities of less than one year. Ratings are graded into several categories, ranging from the highest-quality obligations to default. The current short-term ratings of the Province are as follows:

- Moody's Investors Service P-1
- Standard & Poor's A-1+
- DBRS R-1 (mid)

Additional Sources of Information

www.ofina.on.ca

The website provides information on Ontario's borrowing program and debt, and contains publications from the OFA.

Ontario Budget

The Borrowing and Debt Management chapter discusses the Province's borrowing and debt management activities for the fiscal year ended, and outlines the outlook for the upcoming fiscal year.

Quarterly Finances – OFA Bulletin

The OFA Bulletin provides quarterly updates of the government's annual budget forecast. The full set of quarterly finances information is also available on the Ministry of Finance website, www.fin.gov.on.ca.

Form 18-k

This is the Province's annual report to the U.S. Securities and Exchange Commission (SEC).

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