

# **ONTARIO FINANCING AUTHORITY**

**2020 ANNUAL REPORT**

## Mandate

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 centralized financial services for the Province including banking and cash management;
- 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; and
- carries out the day-to-day operations of Ontario Electricity Financial Corporation (OEFC) and provides a broad range of financial services to Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

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.
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## Statement from the Chair and the Chief Executive Officer

The Ontario Financing Authority (OFA) successfully completed its annual borrowing program in 2019–20, raising \$39.5 billion on behalf of the Province and Ontario Electricity Financial Corporation (OEFC). Performance targets for Canadian-dollar and foreign borrowing were met or exceeded. Based on the *March 2020 Economic and Fiscal Update* projection, a 2019–20 savings of \$0.7 billion in interest on debt expense was generated when compared to the forecast in the *2019 Budget*.

For the first time, the Province issued two Green Bonds in the same fiscal year. The first issue, in November 2019, was for \$750 million and a second Green Bond was launched in February 2020 for \$500 million. During the 2019–20 fiscal year, the OFA also provided financial advice and implementation support for initiatives related to the electricity sector, a loan guarantee program to facilitate Aboriginal participation in energy infrastructure projects, analysis and advice on a number of Infrastructure Ontario projects, and other government priorities.

The OFA will continue to implement the recommendations from the value-for-money audit of the OFA issued by the Office of the Auditor General of Ontario (OAGO) in its *Annual Report 2019*. The recommendations relate to debt sustainability, the operations of the borrowing program, and the OFA's organizational structure. The OFA is advancing effective strategies including the implementation of efficiencies, increased automation and working smarter, to ensure that the agency's mandate continues to be delivered successfully and with the highest regard to value for money.

The COVID-19 pandemic has impacted the global and Ontario economic growth outlooks, and the full extent of this impact remains uncertain. However, the Province has large liquid reserve levels to withstand periods of financial market volatility. Borrowing and debt management activities continued unabated despite challenging market conditions in March. The OFA was able to borrow \$3.5 billion alone in the week between the release of the *March 2020 Economic and Fiscal Update* on March 25, 2020 and the end of the fiscal year.

The OFA's robust Business Continuity Plan allowed the agency to quickly move to working remotely to continue delivering on its mandate when the COVID-19 pandemic lockdown began. In 2020–21, the OFA's ability to work remotely will allow the agency to continue to provide cost-effective borrowing, debt management and other financial services on behalf of the Province. To meet the Province's borrowing requirements, staff will continue to be flexible, monitoring Canadian-dollar and international markets, issuing bonds in different terms and currencies while responding to investor preferences.

We remain dedicated to advancing inclusion, diversity and accessibility in the work and culture of the OFA. As key priorities, the organization continues to cultivate and maintain a fair and respectful workplace, taking steps to prevent harassment and discrimination of any kind. The OFA is committed to the objective of diversification in decisions related to recruitment, learning and development, and succession planning.

We would like to thank the OFA staff for their hard work and the Board of Directors for their advice and oversight during the 2019–20 fiscal year. We look forward to working with staff and the Board in 2020–21.



Greg Orenszak  
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 2019–20 and its objectives for 2020–21.

### Capital Markets Activities

#### *Borrowing Program*

Long-term borrowing for 2019–20 totalled \$39.5 billion, and took advantage of the 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 from 8.1 years in 2009–10 to 10.8 years in 2019–20. This continued 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. This strategy, along with efficient and effective debt management by the OFA, has allowed the Province to project in the *March 2020 Economic and Fiscal Update*, interest on debt expenses for 2019–20 that are \$0.7 billion less than what was projected in the *2019 Budget* despite higher long-term borrowings in the 2019–20 fiscal year.

Strong global investor demand for Canadian-dollar assets, the liquidity of Ontario benchmark bonds and continuing confidence in the Province allowed Ontario to borrow 73 per cent of its 2019–20 borrowing program in the Canadian-dollar market. This was in line with the Province's target range of 70 to 80 per cent for the 2019–20 fiscal year. The OFA's well-developed Business Continuity Plan allowed the agency to continue delivering on its mandate during the COVID-19 pandemic, including borrowing activities that continued unabated despite challenging market conditions. The OFA was able to borrow \$3.5 billion from the release of the *March 2020 Economic and Fiscal Update* on March 25, 2020, and the end of the fiscal year.

#### **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 2019–20 was \$32.3 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 2019–20, the OFA provided investment services to a number of agencies, boards, commissions and other public bodies, including Infrastructure Ontario, Ontario Trillium Foundation, Ontario Capital Growth Corporation and the Financial Services Regulatory Authority of Ontario. Total funds managed were \$2.1 billion.

With OPG, the OFA continued to manage the investment activities of OPG's Used Fuel Segregated Fund and Decommissioning Segregated Fund established under the Ontario Nuclear Funds Agreement (ONFA). The market disruption in March 2020 caused by the COVID-19 pandemic had a negative impact on the Nuclear Funds. As at March 31, 2020, the combined market value of the funds was \$21.8 billion compared with \$22.4 billion at March 31, 2019 and \$4.9 billion when the funds were formally established in 2003.

There are currently 37 external investment managers retained to invest ONFA funds in bonds, equities, and real assets. For the 12 months ending March 31, 2020, the ONFA funds' rate of return was -1.54 per cent, outperforming the market benchmark of -1.63 per cent. Since inception, the ONFA funds have returned 6.97 per cent annualized, outperforming the long-term target annualized rate of return of 5.15 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 \$371.2 billion, interim as at March 31, 2020, compared to \$354.3 billion as at March 31, 2019.

Ontario's net debt is the difference between total liabilities and total financial assets. Ontario's net debt was \$355.2 billion, interim as of March 31, 2020 (March 31, 2019, \$338.5 billion). This projection for March 31, 2020 is \$4.7 billion below the forecast of \$359.9 billion in the *2019 Budget*. It includes the broader public sector's (BPS) net debt of \$12.3 billion (March 31, 2019, \$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 forward contracts, 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. The daily mark-to-market risk exposures and the monitoring of financial risks were not affected by the COVID-19 pandemic.

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

### ***Performance***

The OFA monitors and measures the performance of the borrowing and money market programs. The performance of long-term fixed rate borrowing for 2019–20 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 borrowing achieved a percentile rank of 50.0, within the target range of 45-55 percentile; strategic foreign borrowing achieved a percentile rank of 35.8, outperforming the target range of 50-75 percentile.

The performance of liquid reserve investments (money market program) is measured relative to the returns of a custom benchmark with a term of approximately 61 days. The target is  $\pm 2$  basis points relative to the benchmark. The program's return of 1.8 per cent was 2.1 basis points below the benchmark as a result of a sharp decrease in benchmark rates in March 2020 due to the COVID-19 pandemic. Despite coming in below the benchmark, the actual money market return of \$575 million exceeded the 2018–19 return by \$112 million.

### ***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 3 per cent of debt issued for Provincial purposes.

The interim percentage of interest rate resetting exposure (net of liquid reserves) was 10.0 per cent of debt as at March 31, 2020. The interim foreign exchange exposure was 0.2 per cent of debt as at March 31, 2020.

All exposures were well within the Province's approved policy limits during 2019–20.

### ***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 its 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 all of its major 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, 2020 was \$9 million, decreasing from \$166 million as at March 31, 2019, largely due to a decrease in exposure to a counterparty not previously covered by 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, 2020, over 99 per cent of Ontario's credit exposure was to counterparties rated AA– or better, unchanged from over 99 per cent as at March 31, 2019.

### ***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 had authorized limits of \$39.0 billion and \$15.0 billion, respectively in 2019–20. As at March 27, 2020, the outstanding borrowing under the Province's Treasury bill and U.S. Commercial Paper programs stood at \$19.6 billion and \$3.5 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.

In response to the COVID-19 pandemic, the OFA transitioned entirely as of March 16, 2020 to working remotely. Solutions were quickly deployed to address any impediments impacting telework. The overall seamless transition to remote work was due in large part to the well rehearsed Business Continuity Plan from all OFA divisions. OFA's information technology (IT) systems continue to perform well while supporting all staff's ability to work remotely.

The reliability, security and availability of IT and computing systems is crucial to ensure the OFA carries out its mandate efficiently and effectively. The Strategic Corporate Services Division (SCSD) supports the OFA by ensuring the efficient and effective management of business critical services including technology and communication systems, procurement, facilities, human resources, corporate business continuity and all related policies.

All systems, infrastructure and services were provided to all OFA divisions, with no major system failures or data compromise realized in 2019–20. SCSD continued to provide strategic advice to manage organizational human resource (HR) risks with increasing pressures. With upticks in data creation, consumption, and rising global cyber security threats, continued resource investment contributes to the proactive maintenance and management of systems, and will continue to be handled with the highest diligence in defense of the systems that support the OFA.

## ***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 2020–21***

The OFA will continue to diversify the Province's Canadian-dollar borrowing program using a combination of syndicated issues, bond auctions, floating-rate notes and medium-term notes.

The Province revised its target for Canadian dollar borrowing in 2019–20 to be a range, rather than a fixed point, to recognize that market conditions change rapidly and the Province needs to continue to be flexible in its approach to borrowing to minimize interest on debt costs. The Province will maintain the target range for Canadian dollar borrowing to be approximately 70 to 80 per cent of total borrowing for the 2020–21 fiscal year, but adjust if necessary, recognizing the volatility in the financial markets.

Ontario will continue to be flexible, monitoring the Canadian-dollar and international markets, issuing bonds in different terms and currencies, and responding to investor preferences. Investor relations will remain a priority, but will differ from previous years due to the impact of the COVID-19 pandemic which will result in a substantial reduction and potential elimination of travel for OFA and ministerial staff for a large portion of the fiscal year.

The Province will continue to hedge foreign exchange and interest rate risks when borrowing in international markets. This hedging process has 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, as well as the corresponding regulatory changes in Canada administered by the Canadian Securities Administrators. These initiatives have increased 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. In order to ensure that the Province is able to hedge its debt as cost-effectively as possible, while remaining compliant with changing regulatory requirements, the Province continues to monitor and adapt to the derivatives regulatory developments, making appropriate amendments to its ISDA Agreements and CSAs.

Cost-effective and prudent debt management strategies will continue to be key objectives in 2020–21. 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 on a mandatory annual basis and 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.

The OFA and MOF accepted the recommendations related to debt sustainability and OFA operations from the OAGO's value-for-money audit of the OFA. To address these recommendations, the OFA will: work with the MOF to identify relevant measures of debt sustainability, develop and test scenarios that consider the impacts of potential economic shocks, determine the most cost-effective approach to manage the OFA's surplus, and review the OFA's organizational structure and staffing; conduct cost-benefit analyses of expanding the use of debt auctions and of issuing debt in foreign markets versus domestic markets; and enhance the assessment and reporting of liquid reserve levels and look for opportunities to reduce the cost of holding liquid reserves.

## Financial Reporting and Treasury Services

The OFA continued to effectively deliver on its centralized Banking and Cash Management mandate over the COVID-19 pandemic as a result of its robust Business Continuity Plan. The OFA ensured that funding was available for urgent payments and facilitated innovative solutions for both central agencies and ministries to allow them deliver on the government's COVID-19 relief programs.

The OFA continued to leverage its relationships with all of the major Canadian banks to ensure that the Province's overnight cash deposits receive the best interest rates available, thereby contributing to higher returns on the Province's liquid reserves.

To OFA continued to participate in, and provide advice to, the cross-ministry Working Group, Executive Governance Committee and Payment Card Industry (PCI) Enterprise Coordination Office to ensure that ministries maintain compliance with mandatory security requirements for debit/credit card acceptance. The Province has been in full compliance with PCI requirements from the inception of this mandatory compliance.

The OFA supported and assisted the Ministry of Children, Community and Social Services with its reloadable prepaid benefit cards' program for unbanked individuals receiving Ontario Disability Support Benefit and Assistance for Children with Severe Disabilities payments, as well as in its project to create efficiencies and expand this to other social benefits programs. The OFA continued to provide advice on banking requirements to facilitate the Ontario Cannabis Store.

The OFA worked closely with MOF as a stakeholder on its Transformation of Revenue Processing, Image Capture and Data Entry initiative.

The OFA continues to advise the Financial Services Regulatory Authority of Ontario as it establishes and operationalizes its banking and custodial services' needs.

The OFA also provided ongoing advice to several ministries, central agencies and the Family Responsibility Office on how to increase and implement more effective electronic banking solutions for the collection of a variety of tax and non-tax program revenues as well as for disbursements. This will allow for the reduction of manual and paper processes, thus creating efficiencies in operations.

The OFA has initiated discussions with ministry partners and Ontario Shared Services on emerging electronic payment solutions and industry modernization initiatives. E-Transfer will be used to make payments to recipients of the government's COVID-19 relief programs in 2020–21. An electronic cheque deposit mechanism will be implemented to allow the continued deposit of the Province's revenues over the COVID-19 pandemic to accommodate Ontario Shared Services staff working remotely.

The OFA issued and awarded a tender for banking services for the Family Responsibility Office, Ministry of Children, Community and Social Services.

The OFA continued to work with MOF, Ministry of Government and Consumer Services and Treasury Board Secretariat (TBS) in advancing the initiative to move pension plan assets that are currently part of the

Consolidated Revenue Fund into more appropriate asset management structures that have the potential to provide fiscal savings.

The OFA continued to work with the other provinces in communicating concerns with the Financial Instruments standard to the Public Sector Accounting Board (PSAB). An OFA executive was invited to and participated in a PSAB Task Force charged with producing an Exposure Draft to address some of the concerns raised by Ontario and the other Provinces. Based on an invite from PSAB, the OFA worked with all of the other provinces to develop amendments to the Financial Instruments standard that address all of the concerns of the senior governments. These amendments were unfortunately rejected, however, PSAB has proposed other amendments which, if ratified by its Board, will address some of the most material issues raised by Ontario.

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 2018–19 Financial Statements received an unqualified opinion from the Office of the Auditor General. As part of the audit of the Province's Public Accounts, the Office of the Auditor General audits the OFA's financial reporting of the Province's debt and interest on debt. The 2019–20 Public Accounts audit is currently ongoing. The 2018–19 audit, in keeping with the past years, did not identify any material issues.

#### *Financial Reporting and Treasury Services Objectives for 2020–21*

The OFA will continue to provide centralized Banking and Cash Management services to all ministries over the COVID-19 pandemic as well as ensure that settlements and accounting and financial reporting is provided on a timely and accurate basis for the Province's Treasury Program.

While compliance with PCI Data Security Standards is now in its sustainment phase, the OFA will continue to work with the other Ontario Public Service (OPS) stakeholders and the credit/debit card acquirer to ensure that the mandatory external reviews continue to report that the Province is in compliance with all applicable PCI data security standards, which are reviewed and updated periodically by the PCI Council.

The OFA will continue to work with TD Merchant Services, the Province's card acquirer, to explore options for the Province to begin accepting new value-added card products and technology such as Visa/MasterCard Debit and develop a phased implementation plan to add digital wallets (e.g. ApplePay) to provincial websites.

The OFA will issue a tender for banking services for the Province, OFA and OEFC in early 2021.

The OFA will build on the successful implementation of electronic payment and deposit programs over the COVID-19 pandemic to further move the OPS into a digital environment for revenues and payments, within the context of continued collaboration with industry associations and provincial and federal jurisdictions on modernization initiatives and issues unique to the public sector.

The OFA will continue to work with the Ontario Pension Board, MOF Income Security and Pension Policy Division and TBS on implementing a revised structure for the Judges' Pension Plan including appropriate asset investment structures that will provide fiscal savings.

The OFA will provide advice to the Provincial Controller and external accounting oversight bodies on how changes to accounting standards would affect the Province's debt and IOD. The OFA will work closely with the other provinces in implementing the Financial Instruments standard, including the continued work of the OFA executive on the PSAB Working Groups. The OFA will continue to liaise with the Office of the Provincial Controller and, where required, the OAGO in communicating with PSAB.

The OFA accepted the OAGO's value-for-money audit recommendations related to maximizing value for money in OFA business practices while following the new PSAB accounting standard as the standard is currently proposed. The OFA will continue to prepare for the new accounting standard through 2020–21 and will consult with the OAGO on approaches to continue with efficient business practices.

As a result of the transformation of the Ontario Internal Audit Division (OIAD), the OFA will appoint an external audit firm under a competitive process to ensure that internal audit scrutiny of the OFA remains unchanged from current levels.

The OFA's Business Continuity Plan has allowed the Agency to continue delivering on its mandate effectively despite all staff working remotely from mid-March 2020 onwards. Additional efforts are underway with the development of an IT disaster recovery plan to further enhance the timely recovery of vital business functions and systems to ensure continued business operations. Timely payments are continuing to be made to the broader public sector (including hospitals, municipalities and school boards) through the COVID-19 pandemic, 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 midst of the pandemic.

## **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.

The OFA will continue to assist the Province in identifying efficient and effective public service delivery models by providing financial analysis and advice, and implementation support where applicable, with respect to potential opportunities for partnerships with the private sector and with respect to opportunities to optimize the returns on its government business enterprises and other assets.

### ***Projects – Advisory Activities***

The OFA continued to advise the Province on venture capital investments made by the Ontario Capital Growth Corporation through the Ontario Venture Capital Fund, the new Life Sciences Venture Capital Fund, the Northleaf Venture Catalyst Fund, and the Ontario Emerging Technology Fund.

The OFA continued to provide analysis and advice in respect of a number of Infrastructure Ontario projects.

The OFA provided support to the Value Creation Task Force, which was established to identify and review innovative opportunities to generate recurring non-tax revenues.

The OFA provided advice in support of the government's review of business support programs.

The OFA provided analysis and advice in respect of electricity price mitigation measures.

### ***Projects – Other Financial Services***

Under the OFA's framework for providing financing to public bodies, the OFA provides long-term financing to Crown agencies, school boards, colleges, hospitals and specified Provincial corporations, boards and commissions. In 2019–20, the OFA provided new long-term loans to a number of public bodies, including Ontario hospitals, colleges, and Crown corporations totalling \$216 million. In addition, the OFA provided a short-term, revolving credit facility for up to \$1.1 billion for the Independent Electricity System Operator (IESO) in 2019–20, with an outstanding balance of about \$2.8 million as at March 31, 2020.

The OFA, on behalf of the Province, has received a number of applications for the Province's Aboriginal Loan Guarantee Program (ALGP), which are in various stages of completion and are under review by staff and a third party due diligence provider. As at March 31, 2020, ten loan guarantees have been approved under the program. The aggregate principal of loans guaranteed is \$470 million.

In 2019–20, a provincial loan guarantee supporting a \$220 million loan was provided under the ALGP to support a First Nation Limited Partnership equity investment in the Wataynikaneyap Power northwest grid connection project. Majority-owned by 24 First Nations, the project will connect 16 remote First Nation communities to Ontario's electricity grid.

The OFA is also providing loan administration services to the Province on its loan facility for construction financing of up to \$1.34 billion for a portion of the estimated construction cost of the Wataynikaneyap Power northwest grid connection project.

The OFA provided services to OEFC, including implementing and monitoring loan agreements between OEFC and OPG to provide financing for general corporate purposes and electricity supply projects. The OFA provided analysis and advice on and continued to implement various OFA and OEFC credit facilities to the IESO.

The OFA assisted in the continued implementation of ONFA, including reviewing OPG's 2020 annual budget for eligible expenditures under ONFA for nuclear waste management and monitoring the status of OPG's financial guarantee to the Canadian Nuclear Safety Commission for the 2018 to 2022 period.

The OFA also provided analysis to the Minister of Finance and the government to support electricity policies and initiatives, focusing on potential fiscal, financing, and economic impacts on the Province and OEFC.

### ***Financial Advice Objectives for 2020–21***

In 2020–21, 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 support the Value Creation Task Force, in identifying, assessing and making recommendations on potential opportunities for value creation across government to generate additional incremental non-tax revenues for the Province.

The OFA will provide financial analysis and advice on measures to support government initiatives and to facilitate cost effective borrowing by public sector organizations.

Financial analysis and advice will be provided to the Minister of Finance with respect to policy initiatives in the electricity sector, including the implementation of ONFA, managing the debt and other liabilities of OEFC, and electricity rate mitigation programs. Such financial analysis and advice includes the impact of policy initiatives on the Province's finances (including those of OEFC) and on the economy.

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

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

The OFA will continue to provide loan administration services for a Provincial loan to the Wataynikaneyap Power transmission project.

The OFA accepted the recommendations related to borrowing by public entities and administration of OFA loans from the OAGO's value-for-money audit of the OFA. The OFA will review options with MOF for expanding the loan program and work with other ministries with responsibility for broader public sector agencies and entities, to inform them of the potential cost advantages of borrowing through the OFA. The OFA will also continue to review its loan administration fees, with the assistance of internal audit services to ensure that the fees accurately reflect the cost incurred in administering loans.

## Summary of Financial Results

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

The outstanding balance of the loans to public bodies at March 31, 2020 was \$5,366.5 million, a net decrease of \$163.0 million from \$5,529.5 million in March 2019. The table below summarizes these changes:

*(in thousands of dollars)*

Borrower	March 31, 2020	March 31, 2019	Change
Colleges of Applied Art and Technologies	\$331,396	\$ 350,410	\$(19,014)
Corporation of the City of Windsor	2,237	6,315	(4,078)
Hospitals	101,732	–	101,732
Independent Electricity System Operator	2,754	16,595	(13,841)
Niagara Parks Commission	3,484	3,858	(374)
Ontario Cannabis Retail Corporation	81,405	64,923	16,482
Ontario Lottery and Gaming Corporation	32,325	31,628	697
Ontario Northland Transportation Commission	1,341	6,730	(5,389)
Royal Ontario Museum	23,534	23,634	(100)
School Boards	4,786,301	5,025,439	(239,138)
Total	5,366,509	5,529,532	(163,023)

The OFA continued to provide investment management services to other public bodies in managing aggregate an investment amount of \$2,054 million (March 2019 – \$1,969 million).

The OFA recovered operating costs from agencies and related parties amounting to \$5.3 million for the year ended March 31, 2020 (March 2019 – \$5.3 million). The OFA's annual surplus for the year amounted to \$4.2 million (March 2019 – \$5.4 million) from the partial retention of the interest rate spread on loans to public bodies as well as the interest income from its cash reserves.

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 that were \$1.9 million lower than the budgeted amount. Interest revenue was \$0.2 million higher than the budget contributing to an equal increase in the annual surplus.

## Financial Statements

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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 19, 2020.

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 quarterly with management and the internal auditors, and at least twice yearly with 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 pages, outlines the scope of the Auditor's examination and opinion.

On behalf of management:



Gadi Mayman  
Chief Executive Officer



Ken Kandeepan  
Chief Financial and Risk Officer

# Independent Auditor's Report



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

## INDEPENDENT AUDITOR'S REPORT

To the Ontario Financing Authority

### Opinion

I have audited the financial statements of the Ontario Financing Authority (the OFA), which comprise the statement of financial position as at March 31, 2020, and the statements of operations, change in net financial 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 the OFA as at March 31, 2020, and the results of its operations, change in its net financial assets 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 the OFA 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 OFA'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 the OFA either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the OFA'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 the OFA'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 the OFA'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 the OFA 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  
June 19, 2020



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

**ONTARIO FINANCING AUTHORITY**  
**Statement of Financial Position**  
**As at March 31, 2020**

<i>( in thousands of dollars )</i>	<b>2020</b>	<b>2019</b>
<b>FINANCIAL ASSETS</b>		
Cash	\$ 35,528	\$ 31,062
Due from agencies & related parties (Note 6)(c)	2,544	2,741
Due from the Province of Ontario	2,698	2,816
	40,770	36,619
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	2,698	2,816
Due to the Province of Ontario	1,525	1,435
Deferred revenue (Note 3)	1,419	1,282
	5,642	5,533
<b>Net financial assets</b>	<b>35,128</b>	<b>31,086</b>
<b>NON-FINANCIAL ASSETS</b>		
Tangible capital assets (Note 2)	884	868
Prepaid expenses	535	414
	1,419	1,282
<b>Accumulated surplus</b>	<b>\$ 36,547</b>	<b>\$ 32,368</b>

*See accompanying notes to financial statements.*

Approved on behalf of the Board of Directors:



Greg Orensak  
Chair



Gadi Mayman  
Chief Executive Officer

**ONTARIO FINANCING AUTHORITY**  
**Statement of Operations**  
**For the year ended March 31, 2020**

( in thousands of dollars )

	2020	2020	2019
	Budget	Actual	Actual
<b>REVENUE</b>			
Cost recovery from the Province of Ontario (Note 4)	\$ 22,114	\$ 20,260	\$ 20,583
Cost recovery from agencies & related parties (Note 6) (c)	5,097	5,257	5,292
Amortization of deferred capital contributions (Note 3)	652	611	698
Interest revenue (Note 5)	3,960	4,179	5,382
	<u>31,823</u>	<u>30,307</u>	<u>31,955</u>
<b>EXPENSES</b>			
Salaries, wages and benefits	23,319	22,233	22,520
Administrative and general	3,892	3,284	3,355
Amortization of tangible capital assets (Note 3)	652	611	698
	<u>27,863</u>	<u>26,128</u>	<u>26,573</u>
<b>Annual surplus</b>	3,960	4,179	5,382
<b>Accumulated surplus at beginning of year</b>	32,368	32,368	26,986
<b>Accumulated surplus at end of year</b>	<u>\$ 36,328</u>	<u>\$ 36,547</u>	<u>\$ 32,368</u>

See accompanying notes to financial statements.

**ONTARIO FINANCING AUTHORITY**  
**Statement of Change in Net Financial Assets**  
**For the year ended March 31, 2020**

<i>( in thousands of dollars )</i>	<b>2020 Budget</b>	<b>2020 Actual</b>	<b>2019 Actual</b>
<b>Annual surplus</b>	\$ 3,960	\$ 4,179	\$ 5,382
Acquisition of tangible capital assets (Note 3)	(795)	(627)	(326)
Amortization of tangible capital assets (Note 3)	652	611	698
Prepaid expenses	—	(121)	(33)
<b>Change in net financial assets</b>	<b>3,817</b>	<b>4,042</b>	<b>5,721</b>
<b>Net financial assets at beginning of year</b>	<b>31,086</b>	<b>31,086</b>	<b>25,365</b>
<b>Net assets at end of year</b>	<b>\$ 34,903</b>	<b>\$ 35,128</b>	<b>\$ 31,086</b>

*See accompanying notes to financial statements.*

**ONTARIO FINANCING AUTHORITY**  
**Statement of Cash Flow**  
**For the year ended March 31, 2020**

<i>( in thousands of dollars )</i>	<b>2020</b>	<b>2019</b>
<b>Operating transactions</b>		
Annual surplus	\$ 4,179	\$ 5,382
Less: Items not affecting cash		
Amortization of tangible capital assets	611	698
Increase in prepaid expenses	(121)	(33)
(Decrease)/Increase in deferred revenue	137	(339)
Changes in non-cash working capital:		
(Decrease)/Increase in due from agencies & related parties	197	(771)
Decrease/(Increase) in due from the Province	118	(640)
(Decrease)/Increase in accounts payable	(118)	640
(Decrease)/Increase in recoveries due to the Province	90	(2,202)
<b>Cash provided by operating transactions</b>	<b>5,093</b>	<b>2,735</b>
<b>Capital transaction</b>		
Cash used to acquire tangible capital assets	(627)	(326)
<b>Cash applied to capital transactions</b>	<b>(627)</b>	<b>(326)</b>
<b>Net change in cash</b>	<b>4,466</b>	<b>2,409</b>
<b>Cash at beginning of year</b>	<b>31,062</b>	<b>28,653</b>
<b>Cash at end of year</b>	<b>\$ 35,528</b>	<b>\$ 31,062</b>

*See accompanying notes to financial statements.*

## ONTARIO FINANCING AUTHORITY

### Notes to Financial Statements

For the year ended March 31, 2020

#### 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 centralized financial services for the Province including banking and cash management;
- 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; and
- carries out the day-to-day operations of Ontario Electricity Financial Corporation (OEFC) and provides a broad range of financial services to Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

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 Memorandum of Understanding between the OFA and the Minister of Finance is an administrative agreement that serves as an important governance tool for the OFA in delivering on its mandate and objectives.

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

**(a) Basis of Accounting:** 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.

**(b) 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 assets, with a half-year provision

applied in both the year of acquisition and the year of disposal. The estimated useful life of the assets are as follows:

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

Funding received from the Province 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.

**(c) 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 at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Items requiring the use of significant estimates include: useful life of tangible capital assets, accruals and the accrued benefit obligation. Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

**(d) Accounts Payable and Accrued Liabilities:** Accounts payable relate to normal business transactions with third-party vendors and are subject to standard commercial terms. Accrued liabilities relate to accruals for salaries and benefits.

**(e) Revenue and Expenses:** OFA is funded from the Consolidated Revenue Fund (CRF) as part of Treasury Program. OFA can charge fees subject to statutory and regulatory authority and it earns revenues from public bodies outside of the CRF; the OFA retains revenues earned from the interest rate spread on its loans to public bodies.

**(f) Financial Instruments:** The OFA's financial assets and liabilities are accounted for as follows:

- Cash is subject to an insignificant risk of change in value so carrying value approximates fair value; and
- Accounts receivable, due from agencies & related parties, due from the Province of Ontario, accounts payable, due to the Province of Ontario and deferred revenue are recorded at cost.

The OFA does not use derivative financial instruments on its own behalf.

**(g) Related Party Transactions:** Related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by related parties.

## 2. TANGIBLE CAPITAL ASSETS

	Year ended March 31, 2020			
	<b>Computer Hardware</b>	<b>Leasehold Improvements</b>	<b>Furniture and Equipment</b>	<b>Total</b>
<i>(in thousands of dollars)</i>				
<b>Cost</b>				
Opening balance, April 1, 2019	\$ 13,974	\$ 1,905	\$ 1,213	\$ 17,092
Additions	627	—	—	627
Disposals	—	—	—	—
Closing balance, March 31, 2020	14,601	1,905	1,213	17,719
<b>Accumulated Depreciation</b>				
Opening balance, April 1, 2019	13,240	1,857	1,127	16,224
Amortization	567	15	29	611
Disposals	—	—	—	—
Closing balance, March 31, 2020	13,807	1,872	1,156	16,835
<b>Net Book Value, March 31, 2020</b>	<b>\$794</b>	<b>\$33</b>	<b>\$57</b>	<b>\$884</b>

	Year ended March 31, 2019			
	<b>Computer Hardware</b>	<b>Leasehold Improvements</b>	<b>Furniture and Equipment</b>	<b>Total</b>
<i>(in thousands of dollars)</i>				
<b>Cost</b>				
Opening balance, April 1, 2018	\$ 14,196	\$ 1,893	\$ 1,210	\$ 17,299
Additions	311	12	3	326
Disposals	(533)	—	—	(533)
Closing balance, March 31, 2019	13,974	1,905	1,213	17,092
<b>Accumulated Depreciation</b>				
Opening balance, April 1, 2018	13,118	1,844	1,097	16,059
Amortization	655	13	30	698
Disposals	(533)	—	—	(533)
Closing balance, March 31, 2019	13,240	1,857	1,127	16,224
<b>Net Book Value, March 31, 2019</b>	<b>\$734</b>	<b>\$48</b>	<b>\$86</b>	<b>\$868</b>

### 3. DEFERRED REVENUE

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

*(in thousands of dollars)*

	Year ended March 31, 2020		
	<b>Tangible Capital Assets</b>	<b>Prepaid Expenses</b>	<b>Total</b>
<b>Balance, beginning of year</b>	\$ 868	\$ 414	\$ 1,282
<b>Additions</b>	627	690	1,317
<b>Amortization</b>	(611)	–	(611)
<b>Expensed in the current year</b>	–	(569)	(569)
<b>Balance, end of year</b>	\$884	\$535	\$1,419

*(in thousands of dollars)*

	Year ended March 31, 2019		
	<b>Tangible Capital Assets</b>	<b>Prepaid Expenses</b>	<b>Total</b>
<b>Balance, beginning of year</b>	\$ 1,240	\$ 381	\$ 1,621
<b>Additions</b>	326	491	817
<b>Amortization</b>	(698)	–	(698)
<b>Expensed in the current year</b>	–	(458)	(458)
<b>Balance, end of year</b>	\$ 868	\$ 414	\$ 1,282

Amortization of \$611,000 (2019 – \$698,000) represents the offset to the contributions received for the purchase of tangible capital assets. The \$569,000 (2019 – \$458,000) 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 on behalf of the Province amounting to \$378.8 billion, as at March 31, 2020 (2019 Actual – \$368.6 billion) as per the interim projection published in the *March 2020 Economic and Fiscal Update*. The OFA also manages investments amounting to \$68.1 billion as at March 31, 2020 (2019 – \$64.9 billion), including \$21.8 billion (2019 – \$22.3 billion) under the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the Ontario Nuclear Funds Agreement (ONFA). 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, 2020 was \$20.3 million (2019 – \$20.6 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 \$21.9 billion expiring from 2036 to 2055. Principal repayments received from public bodies by the OFA are forwarded to the Province. The interest rates charged to public bodies is generally slightly higher than the rate charged by the Province on the advances 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, 2020, \$3.5 million in interest rate spread revenue was recognized (2019 – \$4.8 million) of which \$1.0 million is receivable at year end (2019 – \$1.3 million). The OFA's total interest revenue of \$4.2 million for the year also includes \$0.7 million (2019 – \$0.6 million) interest income earned on its bank balance.

##### **Loans to Public Bodies by the Province:**

As at March 31, 2020, the principal amounts receivable by the OFA on behalf of the Province represent long term and short term loans. During the year total interest received from these loans was \$235.0 million (2019 – \$252.6 million), of which \$231.5 million (2019 – \$247.8 million) was flowed to the Province after retaining OFA's interest spread of \$3.5 million (2019 – \$4.8 million).

These are related party transactions, with the exception of Corporation of the City of Windsor.

(in thousands of dollars)

	<b>March 31, 2020</b>	<i>March 31, 2019</i>
(i) Colleges of Applied Art and Technologies	\$331,396	\$350,410
(ii) Corporation of the City of Windsor	2,237	6,315
(iii) Hospitals	101,732	–
(iv) Independent Electricity System Operator	2,754	16,595
(v) Niagara Parks Commission	3,484	3,858
(vi) Ontario Cannabis Retail Corporation	81,405	64,923
(vii) Ontario Lottery and Gaming Corporation	32,325	31,628
(viii) Ontario Northland Transportation Commission	1,341	6,730
(ix) Royal Ontario Museum	23,534	23,634
(x) School Boards	4,786,301	5,025,439
<b>Total</b>	<b>\$5,366,509</b>	<b>\$5,529,532</b>

(i) Colleges of Applied Art and Technologies have been loaned \$331.4 million (2019 – \$350.4 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 1.32 per cent to 5.75 per cent and mature from 2019 to 2049.

(ii) The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act, 2001*. 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 \$2.2 million (2019 – \$6.3 million).

(iii) Hospitals

Unity Health Toronto (created by the 2017 amalgamation of Providence Healthcare, St. Joseph's Health centre and St. Michael's Hospital), a charitable organization incorporated under the *Corporations Act* (Ontario) has been provided with a loan of \$99.0 million (2019 – nil) for the purpose of providing long-term financing as funding for a portion of the shortfall between actuarial value of the assets in the hospital's legacy St. Michael's Hospital single employer pension plan (the SMHPP) and the actuarial value required to merge the SMHPP with the Healthcare of Ontario Pension Plan (HOOPP). The proceeds of this loan were used by Unity Health Toronto to pay down the shortfall to HOOPP. This loan bears an interest rate of 2.99 per cent and matures in 2049.

Arnprior Regional Health (ARH) has been provided a loan facility of \$25.8 million for the purpose of financing a Long-term Care Redevelopment project. As of March 31, 2020 ARH has drawn \$2.8 million (2019 – nil) from this facility bearing interest rate of 1.81 per cent.

(iv) The Independent Electricity System Operator (IESO), a corporation continued under Part II of the *Electricity Act, 1998*, had been provided a maximum \$475 million credit facility under the amended revolving credit facility agreement on November 6, 2017 to primarily fund the Regulated Price Plan variance account prior to an amendment. On December 20, 2019, this agreement was amended again to increase the credit facility from \$475 million to a maximum of \$1,100 million. This credit facility has been extended until June 30, 2023. As at March 31, 2020, the IESO has drawn \$2.8 million (2019-\$16.6 million) for the Rural or Remote Electricity Rate Protection program bearing an interest rate at 1.55 percent.

Previously a separate agreement had been entered into between the OFA and the IESO on November 6, 2017. This credit facility was to expire on September 30, 2022. As a result of the Government's policy decisions on electricity funding, this credit facility was no longer required and under the amended agreement entered into between OFA and IESO on December 20, 2019, this credit facility is no longer required and was terminated on the same date.

(v) The Niagara Parks Commission, a Crown agency of the Province operating under the *Niagara Parks Act*, has been provided a loan of \$3.5 million (2019 – \$3.9 million) to finance additional capital costs incurred for the redevelopment of phase I of Table Rock House in Queen Victoria Park, Niagara Falls. The loan bears interest at 5.07 per cent and matures in April 2027.

(vi) The Ontario Cannabis Retail Corporation (OCRC), a Crown agency of the Province, operating under the *Ontario Cannabis Retail Corporation Act, 2017*, has been provided a loan facility of \$150 million for the purpose of funding the set-up and operating costs. As of March 31, 2020 OCRC has drawn \$81.4 million (2019 – \$64.9 million) from this facility bearing interest rate ranging from of 2.28 per cent to 2.79 per cent.

(vii) The Ontario Lottery and Gaming Corporation (OLG), a Crown agency of the Province established under the *Ontario Lottery and Gaming Corporation Act, 1999*, has been provided loans totaling \$32.3 million (2019 – \$31.6 million) to fund several projects, these loans bear interest ranging from 1.23 per cent to 3.03 per cent and maturing between July 2020 and September 2022.

(viii) The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province operating under the *Ontario Northland Transportation Commission Act*. ONTC's total borrowing of \$1.3 million (2019 – \$6.7 million) matures from April 2020 to January 2031 and bears interest rate of 4.90 per cent. The ONTC has also been provided a Revolving Credit Facility to a maximum amount of \$5 million, maturing on October 30, 2020. As at March 31, 2020 ONTC has not drawn any funds from this facility (2019 – \$5.0 million).

(ix) The Royal Ontario Museum (ROM), a Crown agency of the Province continued under the *Royal Ontario Museum Act*, has borrowed \$23.5 million (2019 – \$23.6 million) bearing a floating interest rate currently at 2.2 per cent. All outstanding loans are scheduled to be repaid by March 2027.

(x) School boards have been provided loans under various programs beginning in 2006. During the year ended March 31, 2020, school boards have made semi-annual blended payments of principal and interest, leaving the total outstanding amount at \$4,786.3 million (2019 – \$5,025.4 million). These loans bear interest ranging from 2.43 to 5.38 per cent and mature from 2020 to 2042. Since

April 1, 2017, the Ministry of Education introduced a new funding model which replaced the need for capital loans from the OFA. School Boards will however, continue to make interest and principal payments until all outstanding balances are paid off.

## 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.

Northern Ontario Heritage Fund	Ontario Immigrant Investor Corporation
Ontario Capital Growth Corporation	Ontario Infrastructure and Lands Corporation
	Ontario Trillium Foundation

Investments managed on behalf of these entities totalled \$2.1 billion at March 31, 2020 (2019 – \$2.0 billion).

- 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 \$17.9 billion (2019 – \$18.8 billion).

### **Ontario Infrastructure and Lands Corporation (Infrastructure Ontario)**

The OFA provides borrowing and other financial services and advice on a cost recovery basis to Infrastructure Ontario and manages its debt of approximately \$6.5 billion at March 31, 2020 (2019 – \$6.3 billion) including loans from the Province, a provincial agency and third parties.

### **Metrolinx**

The OFA provides services to Metrolinx with respect to its fuel commodity hedging program on a cost recovery basis.

### **Wataynikaneyap Power LP (Watay)**

The OFA provides services as Administrative Agent for the Ontario Loan provided by the Ministry of Energy, Northern Development and Mines (ENDM) to Wataynikaneyap Power LP (Watay) for administrative fee of 10 basis points added to the applicable interest rate for each loan. The fee is remitted to the OFA by Watay at the same time it makes scheduled interest payments to ENDM.

- c. The total costs recovered and receivables outstanding for related party agencies at March 31, 2020 are set out below:

(in thousands of dollars)

	<b>March 31, 2020</b>	<i>March 31, 2019</i>
<b>Costs Recovered:</b>		
OEFC	\$3,972	\$4,076
Infrastructure Ontario	695	704
Metrolinx	22	26
Wataynikaneyap Power LP	27	—
Investment Management	541	486
<b>Total</b>	<b>\$5,257</b>	<b>\$5,292</b>
<b>Receivables:</b>		
OEFC	\$1,130	\$ 1,104
Infrastructure Ontario	176	173
Other	88	89
Investment Management	146	125
Interest Rate Spread (Note 5)	1,004	1,250
<b>Total</b>	<b>\$2,544</b>	<b>\$ 2,741</b>

## 7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The main risks that the OFA'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 5 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 into which it has entered. This risk is minimal as all of the receivables are from the Province of Ontario and related parties such as the OEFC and Infrastructure Ontario.

### *Liquidity risk*

Liquidity risk is the risk that the OFA will not be able to meet its cash flow obligations as they fall due. The OFA's exposure to liquidity risk is minimal as all operating and capital expenses are cost recovered primarily 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 OFA. The OFA is not exposed to market risk.

## 8. FUTURE EMPLOYEE BENEFITS

### *(a) Pension Benefits*

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan (PSPP), which is a multi-employer defined benefit pension plan established by the Province of Ontario. The Ministry of Government and Consumer Services (MGCS) 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 MGCS and is not reported in these financial statements.

### *(b) Accrued Employee Benefits Obligation*

The legislated severance entitlement upon retirement for the Association of Management, Administrative and Professional Crown Employees of Ontario (AMAPCEO), excluded employees, management-excluded employees and other Management employees who retire after January 1, 2016, will be paid based on the salary in effect on December 31, 2015. The legislated severance entitlement upon retirement for the Ontario Public Service Employee Union (OPSEU), excluded employees who retire after January 1, 2016, will be paid based on salary in effect on December 31, 2016.

For all other employees subject to terms set out in collective agreements who have completed five years of service, the OFA provides termination pay equal to one week's salary for each year of service up to a maximum of 50 percent of their annual salary.

The costs of these legislated severance entitlements earned by AMAPCEO and OPSEU, excluded employees, management excluded employees, management employees as at March 31, 2020 amounted to \$3,486,000 (2019 – \$3,554,000). In addition, the unused vacation entitlements earned by all employees as at March 31, 2020 amounted to \$1,178,000 (2019 – \$975,000).

On an ongoing basis, MGCS is responsible for funding the legislated severance entitlements, as well as unused vacation entitlements and accordingly no additional expense or liability is reported in these financial statements. Accrued employee benefits obligation is recorded at cost on the entitlements earned by employees up to March 31, 2020. A fair value estimate based on actuarial assumptions about when these benefits will actually be paid has not been made, as it is not expected that there would be a significant difference from the recorded amount. In December 2018, the Province extended and expanded a voluntary early departure program that provided enhanced severance to qualified employees. The additional severance costs as well as the vacation entitlements and other benefits relating to this program were accrued in 2018-19 and of that accrual \$493,383 remains outstanding as at March 31, 2020.

## 9. COMMITMENTS AND CONTINGENCIES

### Lease Commitment:

The OFA rents its premises under an operating lease which has been extended for until June 30, 2022, and the minimum base rental payments for the lease are as follows:

*(in thousands of dollars)*

	March 31, 2020
2021	1,029
2022	1,029
2023	257
<b>Total</b>	<b>\$2,315</b>

OFA is committed to pay its proportionate share of realty taxes and operating expenses for the premises for the year ended March 31, 2020, which amounted to \$1,104,395 (2019 – \$1,178,155).

### Committed 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 Financial Services Regulatory authority of Ontario (FSRA) was established to replace the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation of Ontario (DICO). On June 8, 2019 FSRA took over the regulatory functions of FSCO and DICO and accordingly the OFA's \$400 million revolving credit facility to ensure FSRA'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) was assigned to FSRA. As of March 31, 2020, FSRA had not drawn any funds from this credit facility (2019 – nil). In the event any drawings, all principal and interest is required to be repaid by December 31, 2029. The DIRF as of March 31, 2020 is valued at approximately \$331.3 million (2019 – \$290.6 million).

Infrastructure Ontario 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 \$100 million maturing on March 27, 2023. As of March 31, 2020 Infrastructure Ontario had not drawn any funds from this facility (2019 – nil).

In the event funds are advanced under the above facilities they will be disclosed under Note 5 – Transactions with Public Bodies.

**Contingencies:**

At March 31, 2020, 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.

**10. RELATED PARTY TRANSACTIONS**

The Province of Ontario is a related party as it is the controlling entity of the OFA. The Ministry of Government and Consumer Services provides payroll and benefit services, and the Ministry of Finance provides internal audit services at no cost to the OFA. Infrastructure Ontario also negotiates lease renewals with the landlord on behalf of the OFA at no cost to the Agency.

In addition, related party transactions pertaining to:

- Debt and Investment Management for the Province are disclosed in Note 4;
- Transactions with Public Bodies are disclosed in Note 5; and
- Investment and Debt management for related party agencies are disclosed in Note 6.

# Corporate Governance

Corporate Governance

Financial Reporting Requirements

Board of Directors

## Corporate Governance

### *Overview*

The OFA is an agent of the provincial Crown characterized by a Management Board of Cabinet directive as a board-governed agency.

Corporate governance for 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 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, the *Capital Investment Plan Act, 1993* (the Act). The Minister of Finance is the minister responsible for the administration of the Act with respect to the OFA. The Act, together with policies and directives issued by Management Board of Cabinet, form a framework under which the OFA is governed.

Each year, the Minister of Finance is required to table the OFA's Annual 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. The Act 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 three 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 receives reports from the OFA's internal auditors and the Auditor General of Ontario regarding internal controls and financial reporting. 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 and Governance Committee assists the Board in ensuring appropriate policies and procedures are in place relating to compensation for staff in critical areas and with respect to corporate governance. The OFA ONFA

Investment Committee supervises the OFA's activities related to the investment of OPG's Used Fuel Segregated Fund and Decommissioning Segregated Fund established under ONFA.

The CEO works under the direction of the Chair and the Board and reports the OFA'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 Office of the Auditor General also issues an audit report whose findings are reviewed by the Audit and Risk Management Committee and the Board. The audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included in the Financial Statements of Government Organizations and Business Enterprises section of 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 and procedures.

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

The OIAD of TBS develops an annual internal audit plan based on a review of the OFA's risk assessment and input from the Audit and Risk Management Committee and Management. The internal audit plan is approved by the Board on the recommendation of the Audit and Risk Management Committee. OIAD reports to the Audit and Risk Management Committee on the results of its audit work in the OFA. From 2020–21 onwards internal audit responsibilities for the OFA will be divided between OIAD and an external audit firm to be appointed through a competitive process. The OFA will ensure that combined internal audit scrutiny by OIAD and the external firm remains consistent with the current level of audit review.

## Board of Directors

The following individuals were members of the OFA Board of Directors as of March 31, 2020. Changes to Board membership status and Committee membership which arose during the fiscal year are also noted.

### **Greg Orencsak**

**Chair, OFA Board of Directors, Deputy Minister of Finance**

**Date of initial appointment to OFA Board:** June 2018

Greg Orencsak became the Deputy Minister of Finance in June 2018.

Greg first joined the Ontario Public Service (OPS) in 1999 on an internship as an economist for the Ministry of Finance. Since then, he has held progressively senior positions in the public service. In November 2010, he became Associate Deputy Minister of the Office of the Budget and Treasury Board in the Ministry of Finance, where he was responsible for the coordination of the delivery of the annual Ontario budget.

He was appointed Deputy Minister of Government Services in April 2014 and later that year became the Deputy Minister of Treasury Board Secretariat. Concurrently, he also served as Chair of the Public Service Commission, which ensures the effective management of human resources in the OPS. In 2017, he became Deputy Minister of Advanced Education and Skills Development.

Greg also previously worked in the private sector as a partner in Ernst & Young's Canadian advisory practice, where he served as the firm's National Leader for Public Policy and Fiscal Innovation.

### **Constance L. Sugiyama, CM**

**Vice-Chair, OFA Board of Directors**

**Committee:** Audit and Risk Management Committee, Member

**Date of Initial Appointment to OFA Board:** November 2014

**End of Current Term:** November 2020

Constance L. Sugiyama, CM, JD, LLD, is a corporate director and strategy advisor. Prior to retiring from practice, she was the Deputy Chair of a national law firm and a leading corporate, capital markets and mergers and acquisitions lawyer. She is a past-Chair of the Hospital for Sick Children. Constance currently serves on a number of boards and her community involvement includes, among others, serving as an advisor to the Japanese Canadian Cultural Centre, Women in Capital Markets, and the 30% Club Canada. Constance has been a Board member of the OFA since 2014 and its Vice Chair since 2016.

Constance was appointed a Member of the Order of Canada in 2014. She holds a BA and JD from the University of Toronto and was awarded an Honorary LLD from the University of Western Ontario in 2015.

## **Gadi Mayman**

**Chief Executive Officer, OFA**

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

**End of Current Term:** July 2020

As CEO of the OFA, Gadi Mayman is responsible for the Province's capital market activities, including borrowing and debt management, corporate and electricity finance projects, and its banking and investor relationships. He is also CEO and Vice-Chair of the Ontario Electricity Financial Corporation.

Prior to joining the OFA, Gadi worked at Export Development Canada 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 an MBA from the Ivey Business School at 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 committee of the OFA and Ontario Power Generation.

## **Yim Chan**

**Committee:** Audit and Risk Management Committee, Member

**Date of initial appointment to OFA Board:** January 2018

**End of Current Term:** January 2021

Yim Chan is a retired CIO and Chief Privacy Officer, her career spanned over 35 years with IBM in various Executive Management roles across IBM Canada, Asia Pacific and Corporate.

Yim's experience in the IT Sector covers a broad scope in Technical, Management and Privacy positions to enable organization to drive business innovation and transformation. She provided Business Visionary and led cutting-edge projects and innovative technologies that drove business value and business practice leadership in IT and Privacy Leadership. Her skills included business insights and expertise in IT challenges, and privacy and security solutions incorporating the latest technologies and methodologies.

Yim co-authored Privacy papers and held Board member positions for many years with the International Association of Privacy Professionals that manages the Privacy certification global programs. She was CIPP/C and CIPM certified. She holds 2 patents.

Yim has a Bachelor of Mathematics from the University of Waterloo and a Masters Certificate from George Washington University.

## Heather-Anne Irwin

**Committee:** Audit and Risk Management Committee, Member

**Date of initial appointment to OFA Board:** October 2016

**End of Current Term:** October 2022

Heather-Anne Irwin is the Academic Director of the Master of Financial Risk Management and an Adjunct Professor of Finance at the Rotman School of Management. She is also the Executive Director of the Canadian Securities Institute Research Foundation. Prior to this, Heather-Anne spent 19 years in capital markets at TD Securities, Nesbitt Burns, and Citibank where she occupied various senior roles in corporate finance, fixed income and structured products.

Currently Heather-Anne is a member of the Independent Review Committee of Starlight Capital and was a board member of the public company InnVest REIT. She also sits on several private boards. She is the Founding President of Women in Capital Markets.

Heather-Anne's not-for-profit board work includes, Up With Women where she is the Past Chair, and Bay St. Deconstructed. She was a member of the board of the Centre for Addiction and Mental Health Foundation from 2002–2008.

Heather-Anne has a degree in Engineering Chemistry from Queen's University and an MBA from the Schulich School of School of Business at York University. She holds the ICD.D designation.

## Peter Kay

**Committees:** ONFA Investment Committee, Chair

Human Resources and Governance Committee, Vice-Chair

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

**End of Current Term:** May 2022

Peter Kay is a retired financial services executive. His career spanned 32 years with Canadian Imperial Bank of Commerce (CIBC) 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.

From 2009–2018, Peter was a Trustee of the Upper Canada College Foundation, a charitable foundation, where he also served as chair of the Governance & Nominating Committee.

Peter was awarded a BSc in Engineering from the University of Toronto, an MSc in Management Science from Imperial College, University of London, England, and an LLM in Securities Law from Osgoode Hall, York University.

## Marie MacDougall

**Committee:** Audit and Risk Management Committee, Member

**Date of Initial Appointment to OFA Board:** March 2016

**End of Current Term:** April 2022

Before her appointment to the OFA Board of Directors, Marie MacDougall was Vice President and Treasurer at Export Development Canada (EDC) for 31 years. During her tenure at EDC, Marie occupied various financial, investment, and accounting roles before she was promoted to Vice President and Treasurer in February of 2000. As head of EDC's Treasury group, her team provided financial and technical support to the lending and insurance operations of the corporation. Marie's team of capital market experts developed and executed financial strategies and transactions for the corporation's long-term debt issues, short-term borrowings, investments and foreign exchange transactions, all derivative and pricing activities, and investor relations. In addition, Marie attended the EDC's Board of Directors meetings to provide support to the Chair of the Audit Committee and address any questions regarding EDC's Treasury operations.

## Diane McArthur

**Committees:** Audit and Risk Management Committee, Member

Human Resources and Governance Committee, Member

**Date of initial appointment to OFA Board:** June 2016

**End of Current Term:** June 2022

Diane McArthur is a recently retired public servant. She was the first ever Chief Talent Officer of the Ontario Public Service where she chaired the Ontario Public Service Commission and spearheaded a strategic plan to modernize the public service. Prior to this, she was the Executive Lead for the Secretariat supporting the Premier's Advisory Council on Government Assets. The Secretariat worked with ministries to successfully implement one of the largest IPO's in Ontario's history and most significant reform of beverage alcohol retailing since prohibition.

Diane's previous executive roles include Assistant Deputy Minister and Executive Officer of Ontario Public Drug Programs, where she oversaw the administration of the second largest drug insurance program in North America; Assistant Deputy Minister of the Ontario Seniors' Secretariat; Executive Coordinator of Health and Social Policy in Cabinet Office.

Diane has extensive experience in health human resource policy and planning for health care provider training, education, supply and distribution initiatives, data and health information planning and analysis, health care provider negotiations, rural health policy, labour relations, and service delivery restructuring. She is currently a board member of CorHealth, which provides strategic leadership to improve cardiac, stroke and vascular care in the province, and of Belmont House, a charitable, non-profit home for seniors offering long-term care and retirement living. Diane's previous Board experience includes the Ontario Electricity Financial Corporation (Audit Committee member), the Canadian Agency for Drugs and Technology in Health (Chair, Audit and Finance Committee), and the Michener Institute of Canada.

Diane has a Bachelor of Public Relations from Mount Saint Vincent University in Halifax and an MBA from the University of Ottawa. She received her ICD.D designation in June 2018.

## Catherine McCall

**Committee:** Human Resources and Governance Committee, Chair

**Date of Initial Appointment to OFA Board:** November 2014

**End of Current Term:** November 2020

Catherine McCall is a lawyer by training and is currently the Executive Director at the Canadian Coalition for Good Governance, an organization comprised of representatives of Canada's leading institutional investors. Prior to her recent appointment she was Director of Policy Development at the Coalition. She has over 20 years of experience advising boards and institutional shareholders on a wide range of corporate governance issues.

Previously, she was a Principal at Hugessen Consulting, a Vice-President and Director of ISS Canada and a Partner with Fairvest Corporation. She began her career practicing law with Davies, Ward & Beck in Toronto.

Catherine has an Honours BA in Philosophy from University of Toronto and a JD from Osgoode Hall Law School.

Catherine is past Chair of the Board of ADDUS, a non-profit organization that works with adults with developmental disabilities. She was previously a Director of the Foundation Board of OCAD University and Chair of the Governance Committee. She is a member of the Ontario Securities Commission's Continuous Disclosure Advisory Committee. She received the ICD.D designation in March 2017.

## Paul Potvin

**Committees:** Audit and Risk Management Committee, Member

ONFA Investment Committee, Member

**Date of initial appointment to OFA Board:** February 2017

**End of Current Term:** February 2023

Paul Potvin is a former derivatives trader and structurer with 26 years of experience in Canadian and international fixed income, equities and credit. Paul has held senior positions with Canadian and international banks, including National Bank of Canada, CIBC, and ABN AMRO / Royal Bank of Scotland. Paul also served as a consultant to the Caisse de depot et placement du Quebec in an initiative to reduce the credit risk it assumed following the Montreal Accord restructuring of the Canadian asset-backed commercial paper market. Before working in the financial services industry, Paul was an assistant professor of finance at the University of Toronto.

Paul holds a PhD in Business Economics from Harvard University, and an Honours BA from the University of Toronto.

## **John M. Beck**

**Committee:** Audit and Risk Management Committee, Member

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

**Term Expired:** January 2020

## **Angela Holtham**

**Committee:** Audit and Risk Management Committee, Chair

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

**Term Expired:** February 2020

## **Vincenza Sera**

**Committees:** Human Resources and Governance Committee, Member

ONFA Investment Committee, Vice-Chair

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

**Term Expired:** February 2020

## **Board Member Remuneration in 2019–20**

<b>Board Member</b>	<b>Dollars (\$)</b>
John Beck	3,000
Yim Chan	6,000
Angela Holtham	7,750
Heather-Anne Irwin	7,750
Peter Kay	10,500
Marie MacDougall	5,500
Catherine McCall	8,250
Paul Potvin	9,000
Vincenza Sera	9,000
Constance Sugiyama	8,525
<b>Total</b>	<b>75,275</b>

## **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 3 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 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 Province undertakes financial and derivative transactions. The minimum credit rating of a new swap counterparty 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 based 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. The Province enters into collateral agreements, including CSAs, with almost all counterparties to reduce credit exposure.

### ***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 Chief Financial and Risk Officer reports on program exposures and performance as well as exceptions to policies.
- Management is kept informed of risk exposures and positions related to the Province's borrowing and debt management programs 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. While 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's annual business plan provide a comprehensive assessment of the various types of risk facing the agency as well as division specific mitigation strategies that are reviewed by both OIAD and the Audit and Risk Management Committee of the OFA Board.

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 minimal disruption in the event of an emergency. In response to the COVID-19 lockdown restricting access into 1 Dundas office premises, the OFA transitioned entirely in mid-March 2020 to working remotely. The seamless transition to remote work was due to the well-rehearsed Business Continuity Plan performed on a monthly basis across all OFA business units ensuring organization preparedness to work remotely. OFA activities and systems continue to function well with IT teams supporting all staff working remotely through the pandemic.

# 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.

Long-term ratings are also assigned an outlook indicating the likely direction of an issuer's rating over the intermediate term, typically ranging from 6 months to 2 years. The outlook is denoted (P) for Positive Outlook, (N) for Negative Outlook or (D) for Developing Outlook. No identifier is attached to the rating if the outlook is Stable.

As of May 30, 2020, the long-term ratings of the Province are as follows:

- Moody's Investors Service           Aa3
- Standard & Poor's                    A+
- DBRS Morningstar                    AA (low)
- Fitch                                     AA-

#### 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. As of May 30, 2020, the short-term ratings of the Province are as follows:

- Moody's Investors Service           P-1
- Standard & Poor's                    A-1
- DBRS Morningstar                    R-1 (mid)
- Fitch                                     F1+

## **Additional Sources of Information**

### **[www.ofina.on.ca](http://www.ofina.on.ca)**

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

### **Ontario Budget**

The Province released its *March 2020 Economic and Fiscal Update* on March 25, 2020, which due to the prevailing economic uncertainty presents a one-year outlook based on the best information available. 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. The government will release a multi-year provincial Budget by November 15, 2020.

### **Quarterly Finances – OFA Fact Sheet**

The OFA Fact Sheet 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.ontario.ca/page/ministry-finance](http://www.ontario.ca/page/ministry-finance).

### **Form 18-k**

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

### **Contact Information**

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# ONTARIO FINANCING AUTHORITY

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**© Queen's Printer for Ontario  
ISSN 1492-854X**

**This Annual Report is also available in French**