

ONTARIO FINANCING AUTHORITY

2023 ANNUAL REPORT

Mandate

The Ontario Financing Authority (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;
- manages the Province's key financial relationships with investors, financial institutions, rating agencies and public bodies;
- 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 the Ontario Nuclear Funds; and
- carries out the day-to-day operations of Ontario Electricity Financial Corporation (OEFC) and provides a broad range of financial services to Infrastructure Ontario.

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.

In pursuing its mandate, the OFA is committed to its core values of respect, innovation, teamwork and accountability.

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Statement from the Chair and the Chief Executive Officer

The Ontario Financing Authority (OFA) successfully completed the Province’s long-term borrowing program in 2022–23, raising \$32.2 billion. This was \$8.9 billion lower than the previous year’s borrowing program, primarily due to the stronger financial results reported in the *Public Accounts of Ontario 2021–2022*, and the lower than forecast deficit for 2022–23, while partially offset by pre-borrowing for 2023–24. Throughout 2023–24, the OFA will continue to provide cost-effective borrowing, debt management and other financial services on behalf of the Province.

Ontario issued two Green Bonds in 2022–23 for \$1.0 billion and \$1.5 billion. This brings our overall total of Green Bonds issued to \$15.0 billion since 2014–15 through 13 separate transactions. Ontario remains the largest issuer of Canadian dollar Green Bonds.

We remain dedicated to continuing to advance the OFA’s values of respect, innovation, teamwork and accountability. These values are critical to our success as we develop the next generation of OFA leadership and position the organization for an even better future. In 2022–23, we also launched the ONE OFA People Plan which supports these values and continues to advance the learning and development, leadership capacity, modernization, and the resilience of the OFA and its staff. We remain strongly committed to creating an inclusive, diverse, equitable, anti-racist and accessible work environment.

We thank OFA staff for their continued hard work and successes, and the Board of Directors for their advice and oversight during the 2022–23 fiscal year. We look forward to working with staff and the Board in 2023–24.



Greg Orenszak
Chair



Gadi Mayman
Chief Executive Officer

Management's Discussion and Analysis

This section details management's discussion and analysis of the results achieved by the OFA for the Province in 2022–23.

Capital Markets Activities

Borrowing Program

Ontario's borrowing program is primarily used to refinance maturing debt, make investments in capital assets and fund deficits, when applicable. Long-term borrowing for 2022–23 totalled \$32.2 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 15.0 years in 2022–23. 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 higher interest rates on the Province's interest on debt (IOD) costs. As of the *2023 Budget*, the IOD forecast for 2022–23 is \$13.4 billion, down from the *2022 Budget* forecast of \$13.5 billion, and remains lower for each year of the medium-term outlook than the IOD forecast contained in the *2022 Budget*. This decrease is due to lower borrowing programs, partially offset by higher than projected interest rates.

Strong global investor demand for Canadian-dollar assets allowed Ontario to borrow 88 per cent of the 2022–23 borrowing program in the Canadian-dollar market. This percentage is above Ontario's target range for domestic borrowing of 65 to 80 per cent for the 2022–23 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 for the Province. The average level of unrestricted liquid reserves in 2022–23 was \$36.2 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 2022–23, the OFA provided investment services to a number of agencies, boards, commissions and other public bodies, including Infrastructure Ontario, Ontario Trillium Foundation, Venture Ontario and the Financial Services Regulatory Authority of Ontario. Total funds managed were \$2.0 billion.

With OPG, the OFA continued to manage the investment activities of funds established under the Ontario Nuclear Funds Agreement (ONFA). As of March 31, 2023, the combined market value of the Ontario Nuclear Funds was \$27.9 billion compared with \$27.3 billion at March 31, 2022 and \$4.9 billion when the funds were formally established in 2003.

The OFA and OPG have retained external investment managers to invest the Ontario Nuclear Funds in bonds, equities, and real assets. For the 12 months ending March 31, 2023, the funds' rate of return was 3.52 per cent, outperforming the market benchmark of 2.80 per cent. Since inception, the Ontario Nuclear Funds have returned 7.39 per cent annualized, outperforming the long-term target annualized rate of return. 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 \$429.2 billion (interim) as at March 31, 2023, compared to \$426.4 billion as at March 31, 2022.

Ontario's net debt is the difference between total liabilities and total financial assets. Ontario's net debt was \$395.8 billion (interim) as of March 31, 2023 (March 31, 2022, \$380.4 billion). This projection for March 31, 2023 is \$32.9 billion below the forecast of \$428.7 billion in the *2022 Budget*, primarily due to lower deficits. It includes the broader public sector's (BPS) net debt of \$14.7 billion (interim) (March 31, 2022, \$11.7 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.

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.

Risk management policies are reviewed regularly 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 2022–23 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 45.6, within the target range of 45-55 percentile; strategic foreign borrowing achieved a percentile rank of zero outperforming the target range of 50-75 percentile. The OFA also outperformed the program execution performance measure, particularly the completion of the borrowing program in the midst of inflationary pressures and rising interest rates over the entire fiscal year.

The performance of liquid reserve investments (money market program) is measured relative to the returns of a custom benchmark with a term of approximately 106 days. The target is ± 2 basis points relative to the benchmark. The program's return of 2.72 per cent was 4.4 basis points below the benchmark, underperforming the target. The underperformance was primarily due to the rise in interest rates during the fiscal year. The difference was \$18.0 million when compared to the 106-day benchmark.

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 rising from the Province's floating-rate debt portfolio and need to refinance maturing debt. The OFA limits the Province's maximum net interest rate resetting exposure of 35 per cent of debt and a maximum foreign-exchange exposure of 3 per cent.

The percentage of interest rate resetting exposure (net of liquid reserves) was 5.1 per cent of debt as at March 31, 2023. The foreign exchange exposure was 0.1 per cent of debt as at March 31, 2023.

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 net credit risk exposure associated with the derivative portfolio as at March 31, 2023 was \$2 million, up from zero as at March 31, 2022. 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, 2023, over 98 per cent of Ontario's credit exposure was to counterparties rated AA- or better, increasing from 96 per cent as at March 31, 2022.

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 \$46.0 billion and \$15.0 billion, respectively in 2022–23. As at March 31, 2023, the outstanding borrowing under the Province's Treasury bill and U.S. Commercial Paper programs stood at \$22.7 billion and \$0.4 billion (interim), respectively.

Operational Risk

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

The OFA switched back and forth between a fully remote and a hybrid work environment, due to an office retrofit to reduce leased space and implement desk-sharing spanning the majority of 2022–23. The agency's ability to continue delivering its mandate effectively 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 quickly transition between in-office, remote and hybrid work modes, for compliance with public health and Ontario Public Service (OPS) requirements.

All systems, infrastructure and services were successfully provided to all OFA divisions, with no data compromises in 2022–23. The Strategic Corporate Services Division (SCSD) continued to provide strategic advice to manage organizational human resource 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.

Finance and Treasury Activities

The OFA continued to successfully deliver its Accounting and Financial Reporting, Banking, Cash Management, and Settlements functions throughout 2022–23. This included working closely with internal and external stakeholders to ensure effective delivery of centralized services.

Accounting and Financial Reporting

The OFA is involved in accounting policy and accurate financial reporting for various entities. In 2022–23, it successfully worked closely with the Province on reporting for provincial debt, derivatives and investments, in accordance with strict legislated timelines. This included ensuring accuracy and completeness of amounts reported in the Budget, Fall Economic Statement and Public Accounts. The Accounting and Financial Reporting team also developed the annual financial statements for two agencies, the OFA and the OEFC.

The OAGO completed their annual review of the financial reporting associated with the debt and interest on debt presented in the 2021–22 Public Accounts, which continued to be free of material issues. In addition, the OFA and OEFC 2021–22 Financial Statements received an unqualified opinion from the OAGO.

The major initiative on accounting standards continued, including work with subject matter expert consultants on implementing the complex provisions of the Financial Instruments and the Foreign Currency Translation standards for the 2022–23 fiscal year. Implementation is nearly complete and accounting and financial reporting procedures and associated systems are being amended as required.

A competitive process to appoint a new internal audit service provider was completed as of October 1, 2022. The newly appointed internal auditor completed a modified version of the 2022–23 Board-approved audit plan and their findings and recommendations were received by both management and the Board. As per the internal auditors' observations, there was

significant progress in implementing recommendations by the OFA, which have contributed to substantially enhanced cyber security, enhanced internal and operational controls, as well as more streamlined and efficient operations in all divisions.

In support of the OFA's Debt Management program, the Settlements team continued to provide timely and efficient settlement and payment services. This ensured success in managing the Provincial and OEFC debt portfolios and Non-Utility Generator power purchase agreements, working closely with the Independent Electricity System Operator and our Meter Service Provider.

Moreover, in accordance with the 2019 Management Board of Cabinet Realty Directive, the OFA executed a new lease agreement effective July 1, 2022. This included working closely with Infrastructure Ontario and redesigning the OFA's office space to achieve a 40 per cent reduction in the overall footprint. The project was completed in the Fall of 2022 and total project costs remained within the established budget.

Treasury Services

The OFA continued to advise ministries on the application of the Cash Management Directive with regards to government priorities. This included ensuring that requests from ministries for advance and early payments to stakeholders and transfer payment entities in the broader public sector were analyzed on a case-by-case basis and approval was provided only to those with compelling rationale in line with Government priorities.

As a part of the process to provide effective cash forecasting, the OFA continued to ensure that the Province's cash reserves met its requirements. The Province balances the objective of maintaining the cost of holding liquid reserves against the need to always have enough cash on hand to fund its commitments, invest in capital assets, refinance maturing debt and pay interest. This included continued work with the Office of Economic Policy and the ministries to ensure that cash forecasts including the potential zero cash date are as current and as accurate as possible.

OFA's banking team continued to provide strong advice and assistance to various Ministries to help deliver their programs and initiatives using modern payment options tools and revenue collection methods. This included assisting various Ministries, (including Finance, Natural Resources and Forestry, Environment, Conservation and Parks, and Tourism, Culture and Sport) in setting up online revenue collection. This collection method will facilitate their programs' digitization as part of Ontario Digital Services modernization initiative that will increase online program delivery and ecommerce. The team also assisted the OPS by providing additional payment tools to continue to collect revenue during COVID/remote work and into the current hybrid work environment.

Working closely with financial institutions, the OFA continued to use its expertise and strong partnerships in delivering government programs. In 2022-23, this included continuing the

issuance of 7.5 million cheques as a part of the Province's initiative to refund license plate renewal fees paid since March 2020. The OFA also worked with the Office of the Provincial Controller and Ministry of Public and Business Service Delivery to utilize bulk Interac e-transfer for EDU's Catch-up Support program supporting student learning post-COVID.

The OFA plays a key role in a cross-ministry Working Group, Executive Governance Committee and Payment Card Industry (PCI) Enterprise Industry Assessment and a Compliance Unit to ensure that ministries continued to maintain compliance with mandatory cardholder data security requirements for debit/credit card acceptance. The OFA also continued worked with stakeholders including Office of the Provincial Controller as they are strategically reviewing further streamlining of compliance and reporting efforts for the OPS.

As part of its services to Ministries, the OFA provided ongoing advice to several ministries and central agencies 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 and will leverage the provisions under the new banking contracts to implement value-added services.

Financial Advice

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

Advisory Activities

Analysis and advice was provided on a number of investment policy proposals from Crown agencies and other stakeholders.

The OFA continued to advise the Province on Venture Ontario investments 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 provided analysis and advice in respect of electricity price mitigation measures and federal and provincial policies affecting the electricity sector in Ontario.

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

Other Financial Services

Under its framework for providing financing to public bodies, the OFA provides long-term financing to Crown agencies, and various public bodies. In 2022–23, the OFA provided new long-term loans to a number of public bodies, including Ontario hospitals, colleges, and Crown

corporations totalling \$171.1 million, and continued to monitor and provide advances under existing loan agreements. The OFA also extended for an additional year the \$2 billion credit facility to the Financial Services Regulatory Authority of Ontario (FSRA), for the purpose of addressing potential unexpected liquidity pressures in the Ontario credit union sector.

On behalf of the Province, the OFA 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 well as requests for information on the program for other projects in various stages of development. As at March 31, 2023, eleven loan guarantees have been approved under the program. The aggregate principal of loans guaranteed is approximately \$500 million.

The OFA also continued to provide 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, and the management of Non-Utility Generator power purchase agreements. The OFA provided analysis and advice on and continued to implement various OFA and OEFC credit facilities to the IESO.

Activities were undertaken to assist in the continued implementation of ONFA, including reviewing OPG's proposed 2023 annual budget for eligible expenditures under ONFA for nuclear waste management and providing due diligence on OPG's financial guarantee submission to the Canadian Nuclear Safety Commission for the 2023 to 2027 period and related approvals by the Province.

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.

Corporate Governance

Accountability and Responsibilities

The OFA is an agency of the provincial Crown. The accountability framework is reflected in a Memorandum of Understanding between the OFA and the Minister of Finance, which sets out the roles and responsibilities of each party and is available on the OFA's website.

The OFA is governed by a Board of Directors appointed by the Lieutenant Governor in Council. The Act provides that the Deputy Minister of Finance is the Chair of the Board. The Board is accountable to the Minister through the Chair, and through the Minister to the Legislative Assembly. The Board performs a supervisory role, overseeing the management of the business and affairs of the OFA to ensure the OFA's mandate is fulfilled. Standards of conduct for directors are set out in a Board-approved Code of Conduct.

Three committees of the Board assist it in supervising the management of the OFA. The Audit and Risk Management Committee assists the Board in fulfilling its responsibilities in respect to audits, financial reporting, risk management, and internal controls. 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 the Ontario Nuclear Funds.

The OFA's CEO is responsible for managing the day-to-day operations and ongoing activities of the OFA and reports the OFA's performance to the Board. The CEO and OFA employees are appointed pursuant to the *Public Service of Ontario Act, 2006*.

Board of Directors

The table below provides an overview of the Board of Directors as of March 31, 2023, including their total remuneration during 2022–23 which is determined on a per diem basis. Biographies of current directors, including their membership in Board committees, are available on the OFA’s website. All directors are entitled to participate in any Board committee meeting.

Director	Date First Appointed	Current Appointment Term Expires	Remuneration Paid in 2022–23
Greg Orencsak (Chair)	June 29, 2018	Ex officio, as the Deputy Minister of Finance	N/A – OPS Employee
Constance L. Sugiyama (Vice-Chair)	November 19, 2014	December 16, 2023	\$9,075
Yim Chan	January 8, 2018	March 10, 2024	\$6,750
Rani Dhaliwal	January 7, 2021	January 6, 2024	\$8,250
Steve Geist	July 2, 2020	July 1, 2023 (renewed to July 1, 2026)	\$11,250
Heather-Anne Irwin	October 19, 2016	October 23, 2025	\$6,000
Marie MacDougall	March 23, 2016	April 3, 2025	\$9,000
Gadi Mayman (CEO)	August 31, 2000	July 20, 2023 (renewed to July 20, 2026)	N/A – OPS Employee
Diane McArthur	June 22, 2016	December 8, 2025	\$9,750
Paul Potvin	February 15, 2017	February 13, 2026	\$10,500
Rita Theil	March 24, 2022	March 23, 2025	\$6,750
Grant Williams	March 24, 2022	March 23, 2025	\$12,750
Total			\$90,075

Peter Kay’s appointment to the Board ended in May 2022; he was remunerated \$2,250 during 2022–23.

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 audited financial statements are tabled in the Legislative Assembly 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 OFA's appointed internal auditor 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.

Summary of Financial Results

The Ontario Financing Authority (OFA) executes the Province's borrowing program and manages debt and investment of liquid reserves and recovers the cost of these services from the Province. The OFA also provides loans to Crown agencies and other public bodies at 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, 2023 was \$4,831.2 million, a net decrease of \$244.3 million from \$5,075.5 million in March 2022 (Note 5 to the Financial Statements). The decrease was due to repayments of \$319.3 million offset by new loans of \$75.0 million.

The OFA continued to provide investment management services to other public bodies, managing an aggregate investment amount of \$1,997 million (2022 – \$2,277 million).

The OFA recovered operating costs from agencies and related parties amounting to \$5.9 million for the year ended March 31, 2023 (2022 – \$5.7 million). The OFA's excess of revenue over expenses from operations for the year amounted to \$4.1 million (2022 – \$3.9 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. The \$3.8 million (2022 – \$4.2 million) payment of surplus funds to the Province is presented as a current year expense, which results in the OFA recording an annual surplus of \$0.3 million (2022 – deficit of \$0.34 million).

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 \$1.1 million lower than the approved budget. Interest revenue was \$0.7 million higher than the budget contributing to an equal increase in the excess of revenue over expenses.

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 23, 2023.

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 at least twice yearly with the external and internal auditors, 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



Muneeb Chaudhary
Chief Financial Officer



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, 2023, and the statements of operations and accumulated surplus, 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, 2023, 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.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and my auditor's report thereon, in the OFA's 2023 Annual Report.

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

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing 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.

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 23, 2023

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

ONTARIO FINANCING AUTHORITY
Statement of Financial Position
As at March 31, 2023

<i>(in thousands of dollars)</i>	2023	2022
FINANCIAL ASSETS		
Cash	\$ 9,310	\$ 8,823
Due from agencies & related parties (Note 6)(c)	2,661	2,831
Due from the Province of Ontario	2,024	1,759
	<u>13,995</u>	<u>13,413</u>
LIABILITIES		
Accounts payable and accrued liabilities	2,024	1,759
Recoveries payable to the Province of Ontario	1,553	1,532
Deferred revenue (Note 3)	4,657	1,916
	<u>8,234</u>	<u>5,207</u>
Net financial assets	5,761	8,206
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 2)	4,185	1,494
Prepaid expenses	472	422
	<u>4,657</u>	<u>1,916</u>
Accumulated surplus	\$ 10,418	\$ 10,122

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors:



Greg Orencsak
Chair



Gadi Mayman
Chief Executive Officer

ONTARIO FINANCING AUTHORITY
Statement of Operations and Accumulated Surplus
For the year ended March 31, 2023

(in thousands of dollars)

	2023	2023	2022
	Budget	Actual	Actual
REVENUE			
Cost recovery from the Province of Ontario (Note 4)	\$ 21,739	\$ 20,627	\$ 20,136
Cost recovery from agencies & related parties (Note 6) (c)	5,472	5,914	5,719
Amortization of deferred capital contributions (Note 3)	1,059	946	571
Interest revenue (Note 5)	3,441	4,096	3,858
	31,711	31,583	30,284
EXPENSES			
Salaries, wages and benefits	24,319	23,640	22,665
Administrative and general	2,892	2,901	3,190
Amortization of tangible capital assets (Note 2)	1,059	946	571
	28,270	27,487	26,426
Excess of revenue over expenses from operations	3,441	4,096	3,858
Payment of surplus funds to the Province of Ontario (Note 7)	-	(3,800)	(4,200)
Annual surplus (deficit)	3,441	296	(342)
Accumulated surplus at beginning of year	10,122	10,122	10,464
Accumulated surplus at end of year	\$ 13,563	\$ 10,418	\$ 10,122

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY
Statement of Change in Net Financial Assets
For the year ended March 31, 2023

<i>(in thousands of dollars)</i>	2023 Budget	2023 Actual	2022 Actual
Annual surplus (deficit)	\$ 3,441	\$ 296	\$ (342)
Acquisition of tangible capital assets (Note 2)	(3,790)	(3,637)	(1,137)
Amortization of tangible capital assets (Note 2)	1,059	946	571
Prepaid expenses	0	(50)	(37)
Change in net financial assets	710	(2,445)	(945)
Net financial assets at beginning of year	8,206	8,206	9,151
Net financial assets at end of year	<u>\$ 8,916</u>	<u>\$ 5,761</u>	<u>\$ 8,206</u>

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY
Statement of Cash Flow
For the year ended March 31, 2023

<i>(in thousands of dollars)</i>	2023	2022
Operating transactions		
Annual surplus (deficit)	\$ 296	\$ (342)
Less: Items not affecting cash		
Amortization of tangible capital assets	946	571
Increase in prepaid expenses	(50)	(37)
Increase in deferred revenue	2,741	603
Changes in non-cash working capital:		
(Increase)/decrease in due from agencies & related Parties	170	(167)
(Increase)/decrease in due from the Province of Ontario	(265)	182
Increase/(decrease) in accounts payable	265	(182)
Increase in recoveries payable to the Province of Ontario	21	39
Cash provided by operating transactions	4,124	667
Capital transaction		
Cash used to acquire tangible capital assets	(3,637)	(1,137)
Cash applied to capital transactions	(3,637)	(1,137)
Net change in cash	487	(470)
Cash at beginning of year	8,823	9,293
Cash at end of year	\$ 9,310	\$ 8,823

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY

Notes to Financial Statements

For the year ended March 31, 2023

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;
- manages the Province's key financial relationships with investors, financial institutions, rating agencies and public bodies;
- 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 the Ontario Nuclear Funds; and
- carries out the day-to-day operations of Ontario Electricity Financial Corporation and provides a broad range of financial services to 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

Assets under construction are not amortized until construction is complete and the assets are ready for their intended use.

Funding received from the Province for the acquisition of tangible capital assets is recorded as deferred revenue and amortized to cost recovery revenue 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 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: The OFA is funded from the Consolidated Revenue Fund (CRF) as part of the Treasury Program. The 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
- Due from agencies & related parties, due from the Province of Ontario, recoveries payable to the Province of Ontario, accounts payable, accrued liabilities 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, 2023				
	Computer Hardware	Leasehold Improvements	Furniture and Equipment	Under Construction*	Total
<i>(in thousands of dollars)</i>					
Cost					
Opening balance, April 1, 2022	\$ 14,439	\$ 1,905	\$ 1,213	722	\$ 18,279
Additions	243	2,369	1,025	–	3,637
Capitalization on completion*	233	489	–	(722)	–
Disposals	(503)	(1,904)	(1,003)	–	(3,410)
Closing balance, March 31, 2023	14,412	2,859	1,235	–	18,506
Accumulated Depreciation					
Opening balance, April 1, 2022	13,681	1,900	1,204	–	16,785
Amortization	528	305	113	–	946
Disposals	(503)	(1,904)	(1,003)	–	(3,410)
Closing balance, March 31, 2023	13,706	301	314	–	14,321
Net Book Value, March 31, 2023	\$706	\$2,558	\$921	–	\$4,185

	Year ended March 31, 2022				
	Computer Hardware	Leasehold Improvements	Furniture and Equipment	Under Construction	Total
<i>(in thousands of dollars)</i>					
Cost					
Opening balance, April 1, 2021	\$ 15,217	\$ 1,905	\$ 1,213	–	\$ 18,335
Additions	415	–	–	–	415
Under construction *	–	–	–	722	722
Disposals	(1,193)	–	–	–	(1,193)
Closing balance, March 31, 2022	14,439	1,905	1,213	722	18,279
Accumulated Depreciation					
Opening balance, April 1, 2021	14,338	1,886	1,183	–	17,407
Amortization	536	14	21	–	571
Disposals	(1,193)	–	–	–	(1,193)
Closing balance, March 31, 2022	13,681	1,900	1,204	–	16,785
Net Book Value, March 31, 2022	\$758	\$5	\$9	\$722	\$1,494

*On completion of the retrofit of OFA's leased office premise, \$722,000 of tangible capital assets that were under construction were transferred to the depreciable asset category when they were ready for use.

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, 2023		
	Tangible Capital Assets	Prepaid Expenses	Total
Balance, beginning of year	\$1,494	\$422	\$1,916
Additions	3,637	529	4,166
Amortization	(946)	–	(946)
Expensed in the current year	–	(479)	(479)
Balance, end of year	\$4,185	\$ 472	\$4,657

(in thousands of dollars)

	Year ended March 31, 2022		
	Tangible Capital Assets	Prepaid Expenses	Total
Balance, beginning of year	\$ 928	\$ 385	\$ 1,313
Additions	1,137	483	1,620
Amortization	(571)	–	(571)
Expensed in the current year	–	(446)	(446)
Balance, end of year	\$1,494	\$422	\$1,916

Amortization of \$946,000 (2022 – \$571,000) represents the offset to the contributions received for the purchase of tangible capital assets. The \$479,000 (2022 – \$446,000) 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 \$435.6 billion, as at March 31, 2023 (2022 Actual – \$433.6 billion) as per the interim projection published in the 2023 *Ontario Budget*. The OFA also manages investments amounting to \$84.7 billion as at March 31, 2023 (2022 – \$72.0 billion), including \$27.9 billion (2022 – \$27.3 billion) under the Ontario Nuclear Funds owned by Ontario Power Generation Inc. Those funds are jointly managed under the Ontario Nuclear Funds Agreement (ONFA), an agreement between the Province, OPG and certain OPG subsidiaries to set aside funds necessary for the long-term management of nuclear waste and used fuel and to decommission nuclear power stations.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2023 was \$20.6 million (2022 – \$20.1 million).

5. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province in furtherance of stated Provincial initiatives. These loans are included in the Province's consolidated financial statements and are not reflected in the OFA's financial statements.

Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating to \$14.8 billion expiring from 2036 to 2055. Of these credit facilities, \$11.1 billion has been used to date for funding loans granted by the OFA to public bodies that are currently outstanding. Principal repayments received from public bodies by the OFA are forwarded to the Province. The interest rates charged to public bodies are generally slightly higher than the rate charged by the Province on the advances to fund the loans (the interest rate 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 reflecting the relative risk associated with the loan. During the year ended March 31, 2023, \$3.7 million in interest rate spread revenue was recognized (2022 – \$3.8 million) of which \$1.1 million is receivable at year end (2022 – \$1.3 million). The OFA's total interest revenue of \$4.1 million for the year also includes \$0.37 million (2022 – \$0.07 million) interest income earned on its bank balance.

Loans to Public Bodies by the Province:

These are related party transactions.

(in thousands of dollars)

Borrower	March 31, 2023	March 31, 2022
(i) Colleges of Applied Arts and Technology	\$340,374	\$356,412
(ii) Hospitals	282,915	218,063
(iii) Liquor Control Board of Ontario	39,609	47,098
(iv) Niagara Parks Commission	23,096	27,868
(v) Ontario Cannabis Retail Corporation	59,307	66,878
(vi) Ontario Lottery and Gaming Corporation	41,936	54,420
(vii) Ontario Northland Transportation Commission	1,037	1,143
(viii) Royal Ontario Museum	23,234	23,334
(ix) School Boards	4,019,713	4,280,286
Total	4,831,221	5,075,502

As at March 31, 2023, 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 \$208.9 million (2022 – \$228.5 million), of which \$205.2 million (2022 – \$224.8 million) was flowed to the Province after retaining OFA’s interest rate spread of \$3.7 million (2022 – \$3.8 million).

(i) Colleges of Applied Arts and Technology have been provided loans for various campus projects including college campus expansion, new and expanded student residences, computer equipment, parking facilities, and an energy saving capital project. As of March 31, 2023, the outstanding balance of the loans is \$340.4 million (2022 - \$356.4 million). These loans bear interest ranging from 2.15 per cent to 5.75 per cent and mature from 2024 to 2049.

(ii) Hospitals have been provided loans for various projects including funding for term- care development projects and implementation of new and/or upgraded health information system projects. As of March 31, 2023, the outstanding balance of the loans is \$282.9 million (2022 - \$218.1 million). These loans bear interest ranging from 0.89 per cent to 4.4 per cent and mature from 2023 to 2049.

(iii) Liquor Control Board of Ontario was provided a loan facility of \$51.2 million to fund capital costs associated with relocating its head office. Total drawings under this facility amounting to \$47.2 million was converted into a term loan on April 5, 2022. As of March 31, 2023, the outstanding balance is \$39.6 million (2022 – \$47.1 million). This loan bears an interest rate of 3.26 per cent and matures in 2025.

(iv) The Niagara Parks Commission (NPC) was provided a loan to finance additional capital costs incurred for the redevelopment of phase I of Table Rock House in Queen Victoria Park, Niagara Falls. As of March 31, 2023, the outstanding balance of the loan is \$2.2 million (2022 –

\$2.7 million). This loan bears interest at 5.07 per cent and matures in April 2027. In addition, in 2020, NPC was provided a construction loan facility of \$25.0 million to redevelop the Canadian Niagara Power Generating Station as a visitor attraction. Total drawings under this facility amounting to \$20.9 million was converted into a term loan on January 16, 2023. As of March 31, 2023, the outstanding balance is \$20.9 million (2022 – \$25.2 million). This loan bears an interest rate of 4.58 per cent and matures in 2033.

(v) The Ontario Cannabis Retail Corporation was provided a loan facility of \$150 million for set-up and operating costs. As of March 31, 2023, the outstanding balance is \$59.3 million (2022 – \$66.9 million). This loan bears an interest rate of 2.79 per cent and matures in 2030.

(vi) The Ontario Lottery and Gaming Corporation (OLG) was provided with loans and a loan facility to fund several projects. As of March 31, 2023, the outstanding balance is \$41.9 million (2022 – \$54.4 million). One loan was fully repaid as of October 3, 2022, the remaining loan bears an interest rate of 1.64 per cent and matures in April 2026. Draws on the loan facility bear a floating rate of interest, which is currently at 5.06 per cent. In addition, in 2020, OLG was provided a maximum \$300 million credit facility for operating and working capital requirements. The term of this credit facility ended on May 6, 2022 and the balance has been fully repaid (2022 – nil).

(vii) The Ontario Northland Transportation Commission (ONTC) was provided loans for various projects. As of March 31, 2023 the outstanding balance is \$1.0 million (2022 – \$1.1 million) bearing an interest rate of 4.90 per cent and maturing in 2031. In addition, in 2021 ONTC was provided a revolving credit facility to a maximum amount of \$5.0 million maturing on April 30, 2024. As of March 31, 2023, ONTC has not drawn any funds from this facility (2022 – nil).

(viii) The Royal Ontario Museum (ROM) was provided a loan to fund the Renaissance ROM project. As of March 31, 2023, the outstanding balance of the loan is \$23.2 million (2022 – \$23.3 million). This loan bears a floating interest rate currently at 5.96 per cent matures on March 31, 2027.

(ix) From 2006 to 2017, loans were provided to school boards under various capital programs. During the year ended March 31, 2023, school boards made semi-annual blended payments of principal and interest, leaving the total outstanding amount at \$4,019.7 million (2022 – \$4,208.3 million). These loans bear interest ranging from 2.99 to 5.38 per cent and mature from 2024 to 2042.

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 Corporation	Ontario Immigrant Investor Corporation
Venture Ontario	Infrastructure Ontario
Financial Services Regulatory Authority of Ontario	Ontario Trillium Foundation

Investments managed on behalf of these entities totalled \$2.0 billion at March 31, 2023 (2022 – \$2.3 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 \$13.6 billion as at March 31, 2023 (2022 – \$14.8 billion).

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 \$6.6 billion at March 31, 2023 (2022 – \$6.8 billion) which includes 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 to Watay for administrative fee of 10 basis points of the loan approved. The fee is remitted to the OFA by Watay at the last business day of the same month that it makes scheduled interest payments to the Ministry of Energy.

- c. The total costs recovered and receivables outstanding for related party agencies at March 31, 2023 are set out below:

(in thousands of dollars)

	March 31, 2023	March 31, 2022
Costs Recovered:		
OEFC	\$4,145	\$4,117
Infrastructure Ontario	478	493
Metrolinx	26	20
Watay	634	480
Investment Management	631	609
Total	\$5,914	\$5,719
Receivables:		
OEFC	\$1,199	\$1,176
Infrastructure Ontario	139	141
Metrolinx	30	22
Other	41	26
Investment Management	181	174
Interest Rate Spread (Note 5)	1,071	1,292
Total	\$2,661	\$2,831

7. PAYMENT OF SURPLUS FUNDS TO THE PROVINCE OF ONTARIO

Under section 16.4(1) of the *Financial Administration Act*, a public entity may pay into the Consolidated Revenue Fund any funds that it determines to be surplus to its current needs. In February 2023, the OFA's Board of Directors approved the payment of \$3.8 million (2022–\$4.2 million) to the Province of Ontario. The payment was made in February 2023.

8. 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 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.

9. FUTURE EMPLOYEE BENEFITS

(a) Pension Benefits

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

(b) Accrued Employee Benefits Obligation

Upon retirement, certain full-time employees, after five years of service, are eligible for severance entitlements equal to one week's salary for each year of eligible service up to a maximum of 50 percent of their annual salary. These severance entitlements are limited to years of eligible service as follows:

Employee Compensation Group	Severance Eligibility Details
Non-represented Management Compensation Plan and other non-represented employees	Entitlement limited to years of service accrued up to December 31, 2015 and based on salary in effect as of December 31, 2015
Senior Management Group employees	
Association of Management, Administrative and Professional Crown Employees of Ontario employees	
Non-represented Ontario Public Service Employees Union (excluded) employees	Entitlement limited to years of service accrued up to December 31, 2016 and based on salary in effect as of December 31, 2016
Non-represented Association of Law Officers of the Crown and Crown Counsel Management employees	Entitlement limited to years of service accrued up to December 31, 2004

As at March 31, 2023, the costs of these legislated severance entitlements owed to these eligible employees amounted to \$3.0 million (2022 – \$3.3 million).

As at March 31, 2023, the costs of unused vacation entitlements earned by all employees as at March 31, 2023 amounted to \$2.0 million (2022 – \$2.1 million).

On an ongoing basis, MPBSD 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.

10. COMMITMENTS AND CONTINGENCIES

Lease Commitment:

The OFA rents its premises under a five-year operating lease effective July 1, 2022. The minimum base rental payments for the leases are as follows:

(in thousands of dollars)

	March 31, 2023
2024	752
2025	794
2026	807
2027	807
2028	202
Total	\$3,362

OFA is committed to pay its proportionate share of realty taxes and operating expenses for the premises for the year ended March 31, 2023, which amounted to \$0.57 million (2022 – \$1.0 million).

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) has been provided a non-revolving credit facility of \$2.0 billion to address the risk of a significant liquidity event or a failure affecting one or more credit unions regulated by FSRA requiring financial support in addition to the Deposit Insurance Reserve Fund (DIRF). As of March 31, 2023, the DIRF is valued at approximately \$420.1 million (2022 - \$402.0 million) and FSRA has not drawn any funds from this credit facility (2022 - nil).

Infrastructure Ontario (IO) has been provided a revolving credit facility up to \$100 million to finance project costs on an interim basis. The facility matured on March 27, 2023 but has been extended to March 27, 2028. As of March 31, 2023, IO has not drawn any funds from this facility (2022 – nil).

The Independent Electricity System Operator (IESO) has been provided a revolving credit facility up to \$1,100 million, until June 30, 2023, to primarily fund the Regulated Price Plan variance account. Since the time the credit facility was provided, IESO has drawn funds from

this credit facility and subsequently repaid all funds borrowed. As of March 31, 2023, the outstanding balance is nil (2022 - 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, 2023, 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.

11. RELATED PARTY TRANSACTIONS

The Province of Ontario is a related party as it is the controlling entity of the OFA. MPBSD provides payroll and benefit services. Infrastructure Ontario also negotiates lease renewals with the landlord on behalf of the OFA and recovers its cost from 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;
- Investment and Debt management for related party agencies are disclosed in Note 6;
and
- Payment of surplus funds to the Province of Ontario in Note 7.

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 June 8, 2023, the long-term ratings of the Province are as follows:

- Moody's Investors Service Aa3 (P)
- Standard & Poor's A+ (P)
- DBRS Morningstar AA (low) (P)
- 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 June 8, 2023, 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

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

Ontario Budget

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

Quarterly Finances – OFA 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.

Form 18-k

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

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