Ontario Financing Authority

2003 Annual Report

Ontario
Ontario Financing Authority

Profile

On behalf of the Province of Ontario, various Crown corporations and other public bodies, the Ontario Financing Authority (OFA):

- **executes borrowing, investment and financial risk management activities;**
- **manages the Provincial debt;**
- **advises on financial policies and projects; and**
- **provides financial and cash management services.**

The Ontario Financing Authority also provides financial services and advice to Crown corporations and other public bodies, including the Ontario Electricity Financial Corporation (OEFC) and the Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA).

As an agency of the Province, the Ontario Financing Authority reports to the Minister of Finance, who is accountable to Cabinet for the activities of the Authority.

Business Accomplishments

The Ontario Government sold the Province of Ontario Savings Office (POSO) to Desjardins Credit Union Inc. under a purchase agreement signed January 27, 2003. Desjardins Credit Union Inc. took over as the new owner on April 1, 2003. Desjardins paid approximately $50 million for POSO and will invest an additional $120 million into expanded services, training and improvements. As the manager of POSO, the Ontario Financing Authority was involved in settling the sale terms and facilitating the transfer of the operation to the new owner.

The Ontario Financing Authority led the establishment of the Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) and the development of provincially tax-exempt Ontario Opportunity Bonds.

The Ontario Financing Authority completed OEFC's 2002-03 borrowing requirements, which included debt maturities of $2.7 billion.

OEFC sold $2.1 billion of Hydro One debt that it had held since the restructuring of the electricity sector in 1999. This sale into the public capital markets resulted in a financial gain of over $200 million for OEFC.

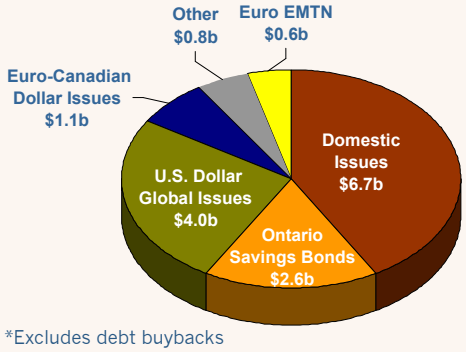
The successful implementation of the government's Integrated Financial Information System (IFIS) at the Ontario Financing Authority has enhanced the Province's cash management capabilities.

The 2002 Ontario Savings Bond (OSB) campaign raised $2.6 billion. This was the eighth successful campaign for the Province.

Financial Accomplishments

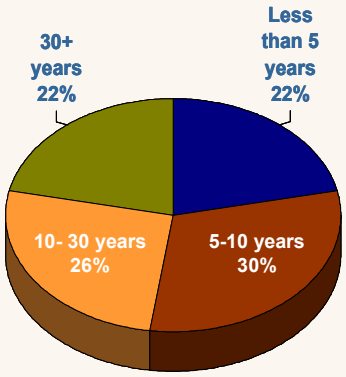
Ontario's 2002-03 long-term public borrowing program of $15.8 billion was completed in a sound and cost-effective manner. Through the timing of debt issues and related hedging, the cost of borrowing for the Province and OEFC was estimated at $48.2 million less than the benchmark, on a present-value basis.

Total Long-Term Public Borrowing by Instrument*

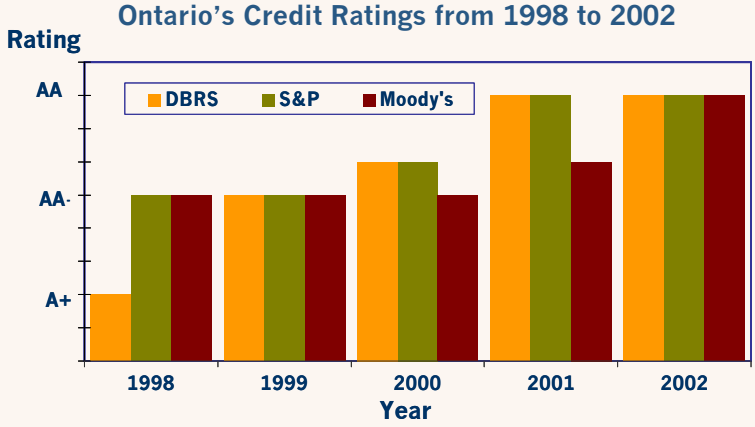


*Excludes debt buybacks

Total Long-Term Public Borrowing by Term

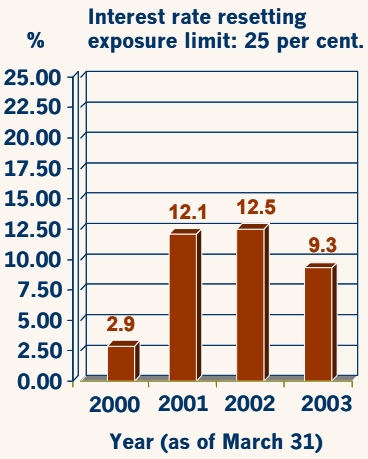


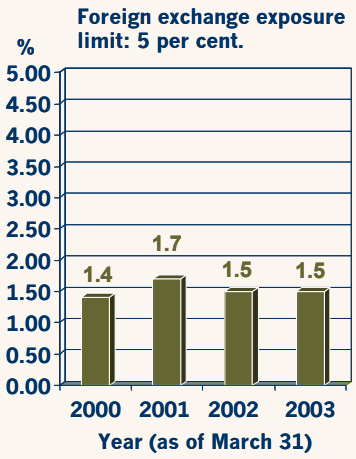
Ontario's Credit Ratings from 1998 to 2002



Ontario is rated double-A by all three rating agencies, Standard & Poor's Corporation, Moody's Investors Services and Dominion Bond Rating Service.

Debt Management





The OFA manages the Province's debt prudently and cost-effectively, adhering to exposure limits for interest rate resetting and foreign exchange.

Financial Accomplishments

The OFA was successful in issuing a variety of bonds in the international bond markets during the year. Two such transactions are illustrated below, highlighting the diverse nature of the Province's bondholders by geography and investor type.

US Dollar 750 million 5.125% Global Bond due July 17, 2012

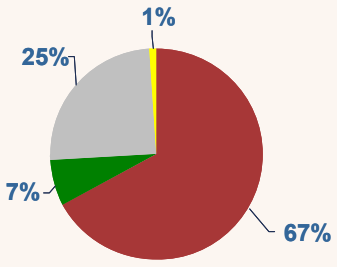
Issue Details

Launch Date: July 17, 2002

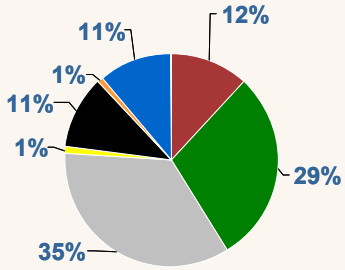
Issue Price: 99.745

Lead Managers: Goldman Sachs/UBS Warburg

Distribution by Geography



Distribution by Investor Type



Source: Goldman Sachs

Euro 400 million 3.5% European Medium Term Note due March 12, 2010

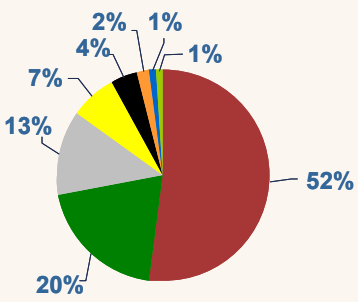
Issue Details

Launch Date: March 12, 2003

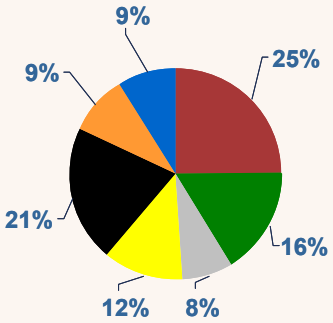
Issue Price: 101.015

Lead Managers: RBC Capital Markets/Salomon Smith Barney

Distribution by Geography



Distribution by Investor Type



Source: RBC Capital Markets

Table of Contents

Statement from the Chair and Chief Executive Officer 7

Ontario Financing Authority 9
- Objectives and Responsibilities 10
- The Board of Directors 11
- Human Resources Objectives 14

Management's Discussion and Analysis 15
- Markets and the Economy 16
- Capital Markets 17
- Risk Control 21
- Corporate Finance 24
- Capital Markets Treasury 26

Financial Statements 29
- Summary of Financial Results 30
- Responsibility for Financial Reporting 32
- Auditor's Report 33
- Balance Sheet 34
- Statement of Net Income and Retained Earnings 35
- Cash Flow Statement 36
- Notes to Financial Statements 37

Corporate Governance 44
- Corporate Governance 45
- Corporate Policies 46

Appendix 50
- Summary of Net Provincial Debt 51
- Credit Ratings 52
- Additional Sources of Information 53

Statement from the Chair and Chief Executive Officer

We are delighted to report on the Ontario Financing Authority's achievements in 2002-03.

For the third fiscal year in a row, the Ontario Financing Authority was successful in coordinating the government's efforts to obtain an upgrade from a credit rating agency. Moody's Investors Service upgraded the Province's credit rating to Aa2 from Aa3. Ontario is now rated double-A by all three rating agencies.

In this fiscal year, the OFA was able to achieve its primary goal of borrowing $15.8 billion on competitive terms and conditions in long-term public markets. Investors domestically and internationally find the Province's bonds an attractive investment, boosted by recent credit rating upgrades.

The Ontario Financing Authority also establishment the Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) and Ontario Opportunity Bonds. We thank the staff who worked on OMEIFA's implementation.

The OFA has a number of challenging assignments in the next fiscal year. These include developing an investment standards framework for Ontario government bodies, and supporting the Ontario Electricity Financial Corporation. In addition, the OFA will be accessing the capital markets to complete the Province's long-term borrowing program, projected at $11.8 billion as of March 31, 2003. The OFA will also be refinancing $3.5 billion in debt maturities for OEFC.

We at the Ontario Financing Authority are committed to the successful completion of our 2003-04 objectives of providing Ontario taxpayers with continued cost-effective and prudent borrowing and debt management.

Bob Christie
Chair
Ontario Financing Authority

Michael L. Gourley
Vice-Chair and Chief Executive Officer
Ontario Financing Authority

Ontario Financing Authority

Objectives and Responsibilities

The Board of Directors

Human Resources Objectives

Objectives and Responsibilities

The OFA was established by the *Capital Investment Plan Act, 1993.* The OFA performs the following responsibilities for the Province of Ontario, its Crown corporations and other public bodies:

- **Executes Borrowing, Investment and Financial Risk Management Activities**

  The primary goal of the Ontario Financing Authority is to meet the Province's financial requirements in a sound and cost-effective manner.

- **Manages the Debt of the Province**

  The OFA manages the Province's debt and contributes to the government's debt reduction efforts. The key principles guiding the management of the debt and associated risks are soundness, efficiency, a smooth debt maturity profile and safeguarding Ontario's credit rating.

- **Advises on Financial Policies and Projects**

  The OFA provides financial policy advice to the Ontario Government on a wide range of corporate finance issues. Examples include electricity industry restructuring, public-private partnerships, sale of government assets and alternative financing proposals.

- **Provides Financial and Cash Management Services**

  The OFA provides cash management and banking-related services and advice to the Province. In addition, the OFA undertakes the accounting and trade settlement for the Province's liquid reserve portfolio, debt portfolio and related hedging transactions.

- **Provides Financial Services and Advice to OEFC and OMEIFA**

  The OFA provides ongoing financial services and advice to OEFC and OMEIFA. The OEFC is the agency responsible for servicing and retiring the former Ontario Hydro's provincially guaranteed debt and certain other liabilities of the former Ontario Hydro. OMEIFA's objective is to provide municipalities with more financing flexibility to invest in capital infrastructure such as water works, sewer works, roads and bridges and transportation.

Board of Directors

Appointed by the Lieutenant Governor in Council, the Board of Directors supervises the business of the Ontario Financing Authority through a number of processes. It approves the OFA's business plan and receives regular reports regarding financing activities. The business plan sets out the OFA's major objectives and the strategies for achieving them. It is revised annually, and is also approved by the Minister of Finance.

The Board also approves the Province's annual financing and debt management plan and key policies applied by the OFA in capital market transactions and management of the Province's debt and investment portfolios. The Board's Audit Committee reviews the financial statements of the OFA, including the Provincial Auditor's report, for recommendation to the Board, oversees the internal audit process, and receives the advice of internal auditors and the Provincial Auditor regarding the adequacy of internal controls.

The Board of Directors meets quarterly throughout the year and met six times in 2002-03. The Board of Directors was composed of the Deputy Minister of Finance, the Chief Executive Officer of the OFA, and four members from the private sector. The directors' diverse backgrounds contribute to the effective supervision of the OFA.

The following individuals were members of the Ontario Financing Authority's Board of Directors in 2002-03:

Dr. Bob Christie, Chair of the Ontario Financing Authority Board of Directors and Deputy Minister of Finance.

(As Deputy Minister of Finance, Bob has been ex-officio Chair of the OFA Board of Directors since August 2000. His appointment expires when a successor is appointed.)

Prior to assuming this position, Bob was Deputy Minister, Ministry of Training, Colleges and Universities. He has also held the post of Deputy Minister, Ministry of Intergovernmental Affairs. He was the Assistant Deputy Minister, Policy Coordination in Cabinet Office and has held various senior positions with the Ministry of Finance. Bob holds a doctorate in Economics, Queen's University.

Michael L. Gourley, Vice-Chair and Chief Executive Officer of the Ontario Financing Authority.

(Appointed to the OFA Board of Directors from July 2002 to June 2005.)

Mike is a member of the Ontario Innovation Trust, and of the Premier's Task Force on Competitiveness, Productivity and Economic progress, and is a founding Board member of the Ontario Research and Development Challenge Fund. From 1995 to 1998, Mike served as Ontario's Deputy Minister of Finance, Chair of the Ontario Financing Authority and as Secretary of the Cabinet Committee on Privatization. He is a former partner with PricewaterhouseCoopers LLP.

Mike held posts at CN Railways and the Conseil du Trésor (Québec), before joining the Ontario Public Service, where he worked at Management Board Secretariat, the Ministry of Northern Affairs, and TVOntario. Mike also worked at the Ministry of Finance as Assistant Deputy Minister (ADM), Office of the Budget, and ADM Courts Administration in the Ministry of the Attorney General.

Mike was appointed Vice President of Administration at the University of Western Ontario in November 1991, a position he held until appointed as Deputy Treasurer, Deputy Minister of Economics and Deputy Minister of Finance for the Province of Ontario in June 1995. Mike holds a B.Sc. from Concordia University.

Board of Directors

John Caliendo, Managing Director, Cornerstone Partners Ltd.

(Appointed to the OFA Board of Directors from July 2000 to July 2003.)

Prior to this position, John was President of Berryman Group. In addition to his current position at Cornerstone Capital, John was Chief Financial Officer of Hotline Communications Ltd. and has held a number of senior posts in the financial services sector in Toronto, London and New York working for the investment firms of Richardson Greenshields, Salomon Brothers and McLeod Young Weir. John is also involved as Chair/Director for various Toronto-area community and non-profit associations. He joined the Board of Directors in September 1997.

Winnie Wong, Partner, Chan Yu Wong Chartered Accountants LLP.

(Appointed to the OFA Board of Directors from July 2000 to July 2003.)

Winnie holds an MBA from York University and a Management Studies degree from the University of Hong Kong. Winnie has worked for international banks in trade financing, credit and marketing, foreign exchange and corporate lending.

Frank Potter, Chairman, Emerging Markets Advisors Inc.

(Appointed to the OFA Board of Directors from May 2002 to May 2005.)

Frank sits on a number of boards, both corporate and not-for-profit. He was a former advisor to the Department of Finance, and prior to that was Executive Director of The World Bank in Washington, D.C. He has also held a number of senior positions in international banking in North America, Europe and Asia.

Tye W. Burt, Executive Director, Barrick Gold Corporation.

(Appointed to the OFA Board of Directors from June 2000 to June 2003.)

Tye is based in Toronto and is a member of the Board of Directors of the Ontario Financing Authority and Barrick Gold Corporation. He is also the Chairman of the Board of NRX Global Corporation, a network platform provider and portal for the global heavy equipment and parts industry. He is a Member of the Law Society of Upper Canada and the Young Presidents' Organization.

Tye Burt is a former Chairman of Deutsche Bank Canada and Deutsche Bank Alex.Brown Securities Canada. Before joining Deutsche Bank he spent over a decade at Nesbitt Burns Inc. and Burns Fry Ltd.

Human Resources Objectives

As with all organizations, the Ontario Financing Authority faces a changing workplace. Changing workplaces require organizations to rethink roles, structures and ways of delivering services. The OFA is committed to meet these challenges and provide a high level of service to its stakeholders.

In this regard, several human resource strategies initiated in 2001-02 continued to be implemented or enhanced in 2002-03. Staff participated in secondments, held memberships on committees, task forces and projects, and were given opportunities to improve technical, communication, management and knowledge-based skills.

The OFA took part in Ontario Public Service (OPS) initiatives such as the Internship Program and workfare initiatives, which are aimed at providing training and work experience. As well, a number of divisions hired students through various university cooperative work placement programs. Through annual performance reviews and training programs, opportunities were identified and staff were encouraged to work towards obtaining performance objectives either through formal courses or on-the-job training. A number of staff participated in training offered by the Integrated Financial Information System (IFIS) and Modern Controllership.

Staff pursued educational courses such as the Chartered Financial Analyst (CFA), and various accounting programs such as the Certified Management Accountant (CMA) and the Certified General Accountant (CGA) designations. Staff were also encouraged to attend conferences, seminars or presentations to keep abreast of advances in finance, accounting and technology. Working with human resource consultants of the Ministry of Finance, the OFA took steps to improve succession planning and retain staff for longer periods. The objective of these human resource initiatives is to improve the attractiveness of the OFA as a place of employment, reduce turnover, and therefore increase efficiency, which ultimately benefits stakeholders.

Management's Discussion and Analysis

This section of the Annual Report provides management's discussion and analysis of the markets and economy, accomplishments in 2002-03 and priorities for 2003-04.

Markets and the Economy

Capital Markets

Risk Control

Corporate Finance

Capital Markets Treasury

Markets and the Economy

The Year in Review

Following the unprecedented 475 basis point reduction in the trend-setting U.S. Federal Funds rate during 2001, U.S. short-term interest rates were lowered a further 50 basis points in 2002, reflecting soft economic growth. Faced with strong domestic demand and associated inflationary pressures, the Bank of Canada raised the overnight rate three times in 2002 by a total of 75 basis points. Since the end of the calendar year, the continued strength in the Canadian economy has caused the Bank of Canada to raise interest rates 25 basis points twice, once in early March 2003 and again in mid-April 2003, to reduce the amount of monetary stimulus.

North American bond yields declined during 2002. During this period, the gap between Canadian and U.S. bond yields widened to levels not seen since 1996. This was due in part to Canada's economic outperformance relative to the United States and differences in monetary policy. The historically low interest rates made it prudent for the Province to partially pre-fund its 2003-04 financing needs.

The Canadian dollar strengthened throughout 2002, after recovering from all-time lows in January 2002. The Canadian dollar has continued to appreciate in 2003, as the Bank of Canada has raised its overnight rate twice, increasing the interest rate differential versus the United States.

The economy of Ontario's leading trade partner, the United States, improved in 2002. The U.S. economy emerged from a three-quarter recession by late 2001. During 2002, U.S. consumer spending increased markedly, the housing market gained momentum, inventories were replenished and business investment on software and equipment began to recover. For the year as a whole, the U.S. economy grew by 2.4 per cent in 2002, recovering from a meagre 0.3 per cent gain in 2001.

The Canadian economy outpaced the United States in 2002, led by continued strength in domestic demand. Rising income and healthy employment gains contributed to strong consumer spending, and low mortgage rates stimulated gains in the housing market. Sales incentives helped maintain U.S. auto sales, providing demand for Canadian exports. Faced with improving demand, businesses increased investment spending on plants and equipment. However, the pace of growth slowed towards the end of last year reflecting a marked slowdown of the U.S. economy, higher oil prices and the uncertainty stemming from the impending conflict with Iraq. For the year as a whole, Canadian real GDP grew by 3.4 per cent, more than double the 1.5 per cent growth of 2001. Ontario's growth outpaced the rest of Canada reflecting the rebound in auto production and strong domestic demand. The Ontario economy grew by 3.9 per cent in 2002, up sharply from the 1.5 per cent advance in the previous year. Corporate profits rose 21.6 per cent contributing to stronger spending on machinery and equipment. Household spending remained healthy.

Responsibilities

- Execute borrowing program and debt management activities.
- Manage legal requirements and securities commission filings.
- Manage relations with investors and the investment community.

2002-03 Accomplishments

The OFA employed a wide variety of financing approaches to complete the Province's borrowing requirements in 2002-03, and adapted to challenging market conditions by continuing to diversify its funding sources to meet investor demand. These funding sources included Domestic, European and Global bonds as well as medium-term notes (MTNs).

The Province's bond issues were well received by both retail and institutional investors worldwide. While domestic investors comprise the largest investor base for Ontario, significant foreign investor interest demonstrates widespread international demand for Ontario's bonds. Demand is particularly strong from the United States, but also from Europe and Asia. The Province's strong and stable credit ratings have allowed the OFA to take advantage of borrowing opportunities in the international fixed income markets.

In 2002-03, borrowing of $15.8 billion was completed in the long-term public markets. Historically low but rising interest rates made it prudent for the Province to partially pre-fund its 2003-04 financing needs, including $2.2 billion related to the replacement of POSO deposits and a $1 billion capital injection to OMEIFA.

The OFA also completed OEFC's borrowing requirements, including debt maturities of $2.7 billion, through the $2.1 billion raised from the successful sale of the Hydro One notes and the issuance of $0.9 billion in long-term debt.

The 2002 Ontario Savings Bond (OSB) campaign, aimed at retail investors in Ontario, raised $2.6 billion. This was the eighth successful campaign for the Province.

Timing of Debt Issues

Through the timing of debt issues and related hedging, the cost of borrowing for the Province and OEFC during fiscal 2002-03 was estimated at $48.2 million less than the benchmark, on a present value basis. This performance measure compares the actual cost of borrowing against a benchmark of hypothetical domestic borrowing of the same term spread out evenly over the fiscal year based on projected borrowing requirements.

Financing Sources

The domestic market was the main source of funding for the Province in 2002-03, providing a total of $6.7 billion, including 11 syndicated domestic issues, and more than 20 smaller structured issues via the domestic MTN program. The syndicated domestic issues were targeted to Canadian institutional investors (pension funds, money managers, banks and trust companies and insurance companies); the structured issues were targeted to Canadian retail investors.

Capital Markets

While more than two-thirds of the borrowing program was raised in Canadian dollars, Ontario was also successful in accessing foreign currency markets. The Province issued seven U.S. dollar Global bonds for the Canadian dollar equivalent of $4.0 billion. Most of these bonds were purchased by U.S. institutional investors, but there were also purchases by European and Asian institutional investors.

Additionally, a total of $0.9 billion was raised via a New Zealand dollar Global bond, a Euro currency-denominated Euro Medium Term Note (EMTN) and an Australian dollar-denominated EMTN. The Province also issued nine Euro-Canadian dollar bonds via its EMTN program, raising a total of $1.1 billion. The EMTN program is targeted to European investors, both institutional and retail.

Finally, the Province chose not to accept its share of Canada Pension Plan (CPP) funds for financing, as this source of funding was more expensive than alternative funding sources in the capital markets.

Debt Management Activities and Policies

To take advantage of market opportunities, the OFA purchased and retired $517 million of several Ontario debt issues, financing the purchases with similar amounts of debt at more favourable rates, thereby saving debt interest costs.

The OFA uses financial options and swaps to manage the Province's exposure to fluctuations in interest rates and foreign currency exchange rates. Risk exposures are monitored daily and audited annually. The cost-effectiveness of borrowing, debt management and investment activities are measured daily against pre-established benchmarks.

As of March 31, 2003, the Province's total swap portfolio had a notional value of $73.2 billion, which consisted of $27.9 billion in cross-currency swaps and $45.3 billion in interest rate swaps.

To mitigate the financial risks inherent in a large and diversified debt portfolio, it is important to maintain prudent risk management policies and practices. The OFA employs risk limits and strategies to ensure that market, credit and liquidity risks are managed in a sound and cost-effective manner. These risk limits and strategies are outlined below.

Foreign Exchange Risk

Net foreign exchange exposure was 1.5 per cent of outstanding debt as of March 31, 2003. During the fiscal year, foreign exchange exposure was within the Province's approved limit of five per cent of outstanding debt.

Interest Rate Resetting Risk

Interest rate resetting exposure was 9.3 per cent of outstanding debt as of March 31, 2003. During the fiscal year, interest rate resetting exposure was within the Province's approved limit of 25 per cent of outstanding debt.

Province of Ontario Savings Office (POSO)

In the 2001 Budget, the government announced the intention to sell POSO. A Request for Proposals was released in September 2002 to qualified bidders.

On January 28, 2003, it was announced that Desjardins Credit Union Inc. was the successful bidder for POSO, taking over as the new owner on April 1, 2003. Desjardins Credit Union Inc. paid approximately $50 million for POSO and will invest an additional $120 million into expanded services, training and improvements. Approximately 85 per cent of POSO staff accepted a job offer with the new owner.

Desjardins Credit Union Inc. assumed responsibility for all POSO deposits. In addition, the Province will continue to guarantee payment of all POSO short-term deposits and guaranteed investment certificates that were purchased before April 1, 2003, until their maturity.

As the manager of POSO, the Ontario Financing Authority was involved in settling the sale terms and facilitating the transfer of the operation to the new owner.

Refinancing Risk

The Province strives for a balanced debt maturity profile to mitigate the interest rate risk inherent in refinancing maturing and floating-rate debt. During 2002-03, maturities amounted to $11.6 billion. In 2003-04, maturities are estimated at $10.1 billion.

Credit Risk

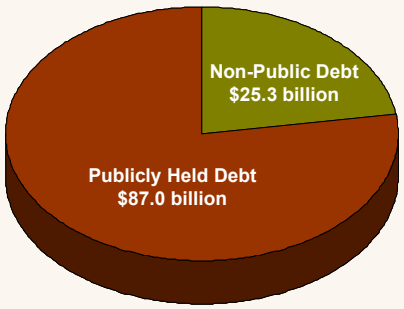
The lowest acceptable credit rating of counterparties for Ontario is "A minus". However, Ontario typically enters into new swap transactions with counterparties rated "AA minus" or higher. At year-end, 80 per cent of the swaps outstanding were with financial institutions with credit rating "AA minus" or higher.

Liquidity Risk

Liquidity risk is controlled through the management of liquid reserve levels, short-term borrowing programs and prearranged lines of credit. The average level of liquid reserves was $6.5 billion in 2002-03. The Province's Treasury Bill and U.S. Commercial Paper programs have authorized limits of $12.0 billion ($6.0 billion for the Province and $6.0 billion for OEFC) and $2.5 billion ($1.25 billion for the Province and $1.25 billion for OEFC), respectively.

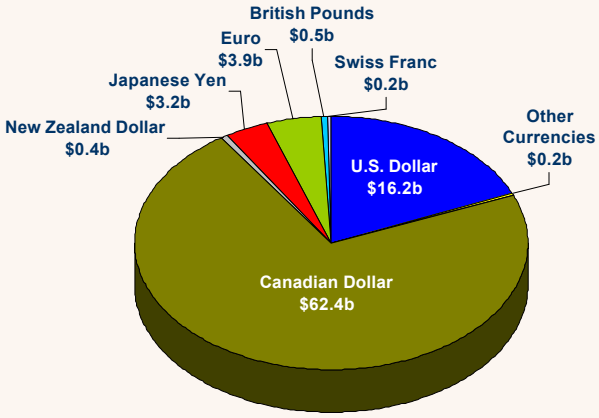
Debt Portfolio

Debt by Liability



The Province's non-public debt is held largely by Canadian public sector pensions. The Province's public debt is held domestically and internationally by pension plans, insurance companies, money managers, and retail investors.

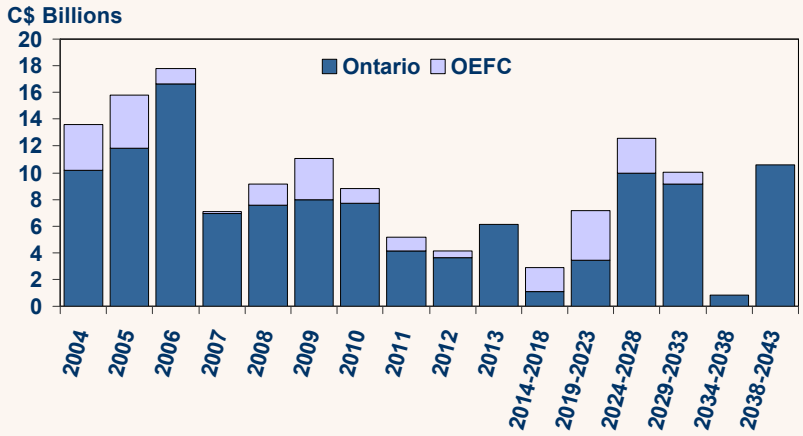
Publicly Held Debt by Currency



Over 70 percent of the Province's publicly held debt is in Canadian dollars.

Capital Markets

Long-Term Debt Maturity Profile



Priorities for 2003-04

The Province's total long-term public borrowing for 2003-04 is projected at $11.8 billion, of which $10.1 billion is to refinance maturing debt, $1.0 billion is a provision for early redemptions of debt, and $1.5 billion is related to acquisitions of tangible capital assets. These requirements are partially offset by the amortization of tangible capital assets of $0.8 billion. High levels of maturing debt over the next three years coupled with potentially higher interest rates will require significant attention to be paid to prudent debt management practices.

The domestic market will again be a primary source of funds for Ontario's borrowing program. An additional source of domestic borrowing may be the CPP. The actual amount borrowed from the CPP will depend on whether it is cost-effective relative to other financing alternatives. In addition, a ninth issue of Ontario Savings Bonds will be included in the 2003-04 financing program. The size of the campaign will depend on market conditions.

International capital markets will be monitored and foreign markets will be accessed when total borrowing costs are lower than those in the Canadian domestic market.

The Province continues to look at the feasibility of offering Ontario Savings Bonds using the Internet. The OFA will continue to build on the successes of its domestic MTN program.

The OFA also plans to borrow on behalf of the Ontario Electricity Financial Corporation (OEFC). OEFC's debt maturities for 2003-04 are projected at $3.5 billion.

Responsibilities

- **Monitor and measure financial risks and performance associated with borrowing, debt management and investment of liquid reserves.**
- **Ensure risk management policies reflect prevailing market conditions, address counterparty exposures and monitor compliance.**
- **Develop and implement risk management policies and the associated infrastructure to assess and monitor new business exposures, ensuring compliance with approved limits.**
- **Forecast and analyze Public Debt Interest for the provincial budget and quarterly fiscal updates.**
- **Assess counterparty credit risk and manage the Province's relationship with the credit rating agencies.**
- **Provide systems development and information technology support.**

2002-03 Accomplishments

During 2002-03, Risk Control embarked on an intensive and ongoing review of OFA operational risks. Building on the Blotter Control Principles reviewed by Internal Audit Division in 2001-02, the division implemented algorithms and procedures ensuring that all transactions are captured and priced by the mid-office systems in a timely and accurate manner.

As part of the move to mitigate operational risk, the division also began a comprehensive Model Risk Review Initiative to review all transaction pricing algorithms, thereby ensuring exposures are accurately measured and assessed. Model risk assessments are tabled with the Borrowing Strategy Committee upon completion. The division's approach to managing operational risks attributable to transaction pricing algorithms and the underlying controls was reviewed by Internal Audit Division and found to be in line with best industry practices.

Risk Control reviewed and refined the credit and related legal risks policy and the associated counterparty credit limits for the OFA and OEFC. The proposed amendments to the OFA and OEFC credit and related legal risk policies were approved by the Board of Directors in December 2002. The new approach for managing the Province's exposure to credit risk has adopted the credit risk management recommendations of the industry's regulatory bodies. Credit risk management at the OFA considers both a counterparty's credit capacity and their rating. The revised approach was reviewed by Internal Audit Division and found to be in accordance with best industry practices.

Communication is an integral element of risk management. In 2002-03, the division began circulating daily "wrap-up" exposure status reports and portfolio profit and loss (P&L) attribution reports to the Chief Executive Officer and the Risk Management Committee. These reports are designed to attribute changes in portfolio performance to market dynamics.

The division, in consultation with OFA legal counsel, developed Audit Committee Charters for the OFA and OEFC Board of Directors. The Charters were adopted by the Boards of Directors at their respective meetings in September 2002. An important component of the Charters is the identification and review of major risks facing OFA and OEFC by the Audit Committee members. In association with an Audit Committee

Risk Control

work plan, OFA divisions will be required to brief the Audit Committee on the exposures under its purview with an articulation of the risk management policies, procedures, and strategies employed to control or mitigate the exposures. Internal Audit Division has been an active participant in the development of the Audit Committee work plan. Given the heightened interest in corporate governance issues, and the climate resulting from recent scandals in the private sector, and as part of the ongoing work on corporate governance, the division, jointly with OFA legal counsel, developed a Board of Directors Code of Conduct. Prior to being approved by the respective Boards in April 2003, the Code of Conduct was reviewed by Internal Audit Division and found to be in line with best practices.

The proposed Code of Conduct was approved by the respective Boards in April 2003. The division has also conducted a preliminary survey of corporate governance in central banks, major pension funds (e.g., CPP) and recent literature. A review of the existing corporate governance policy is contemplated during fiscal 2003-04.

The use of risk budgeting and risk-adjusted performance evaluation to measure the effectiveness of the Debt Management Program was implemented on a trial basis in 1999-2000, and continued in 2001-02 and 2002-03. The strength of the underlying assumptions and the suitability of this approach for other programs and exposures will be assessed as part of an ongoing study on performance measurement. A stress testing and scenario analysis framework for evaluating the Financing and Debt Management Programs has been designed, scenarios have been identified and implementation details are being worked out. Implementation will take place in 2003-04.

Business continuity planning has garnered significant attention in recent times; the OFA's Business Continuity Plan (BCP) addresses the need for arrangements to facilitate the continuity of the Information Technology (IT) systems, including computer systems and information technology infrastructure. The systems and data recovery component of the BCP was tested in October 2002, with focus on critical resources and business processes. The test verified the effectiveness of the plan and identified recommendations for improvements. The test also familiarized staff with the operations of the plan. An independent review of the systems and data recovery testing was conducted by the Internal Audit Division for the Ministry of Finance. Their report indicated that the test was executed well and met the testing objectives.

As part of the ongoing enhancements to the BCP, the division is upgrading its business recovery procedures and technology to facilitate real-time off-site back-up of key operating systems and data.

For OMEIFA, the division developed and delivered the Policy Framework for Risk Management, the Lending Policy and the Policy for Financial Soundness Evaluation and Monitoring. These policies were approved by OMEIFA's Board of Directors and reviewed by Internal Audit Division. A financial model for OMEIFA was also developed. The next generation of OMEIFA's

Credit Rating Update

Risk Control's responsibility in managing Ontario's relationship with the rating agencies is to ensure a full understanding and appropriate analysis of the Province's economic strength, budget plan and financial position.

The division met this objective on several occasions in 2002-03. The division proactively informed the rating agencies of the Canada Customs and Revenue Agency tax collection error, at all times keeping rating agencies well informed of the Province's position and potential impacts. Rating agencies were also kept apprised of all developments in relation to the government's Electricity Consumer Price Protection Plan. As well, the division communicated provincial initiatives pertaining to the Ontario Hydro successor entities and the planned commercialization of government assets.

Finally, the division coordinated the annual post-budget briefing sessions for the rating agencies that culminated with Moody's Investors Service upgrading the Province of Ontario's credit rating to Aa2 from Aa3.

Financial Model will be designed to handle the requirements of OMEIFA's risk management policies and credit rating agencies.

The division designed and implemented user-specified information systems in support of the administration of the OEFC non-utility generators (NUGs) power purchase agreements (PPAs).

In support of the settlement, reconciliation and audit of the NUG PPA payments, information capture systems accessing IMO data were designed and delivered. These first-generation systems will be enhanced to user specifications in conjunction with the acquisition of meter reading technology and the evolution of the OEFC's participation in Ontario's electricity market.

Further to the policy framework for NUG Power Contract Management, which was approved by the OEFC Board in 2001-02, an integrated system of reporting and monitoring OEFC's electricity transactions ("Power Trader") has been under development and is planned as forward markets develop in Ontario.

The division undertook other projects (in conjunction with other jurisdictions and independently) to keep abreast of advances in the fields of risk control and portfolio benchmarking.

Priorities for 2003-04

During 2003-04, the division will continue to enhance or update its financial risk assessment capabilities, portfolio analytics, financial risk measures and risk management policies for OFA, OEFC, and OMEIFA. This will include conducting strategic studies as required, e.g., portfolio analytics and performance benchmarking for the Province.

Regular communications with credit rating agencies will continue to ensure that the Province's ratings are based on current and timely information.

The division will continue to develop and maintain the OFA's computerized business applications, desktop tools and underlying Information Technology infrastructure to ensure that future business needs are met.

Risk Control's key priorities for fiscal 2003-04 include:

- Completion of the Model Risk Review Initiative.
- Review and revise as required the OFA, OEFC and OMEIFA Corporate Governance Policy and related directives.
- Commence an assessment of alternative performance benchmarks.
- Implement the framework for portfolio stress testing.
- Develop and implement risk management and reporting procedures and systems infrastructure to assess, monitor and control electricity market based risks.
- Develop and implement risk management and reporting procedures and systems infrastructure to assess, monitor and control OMEIFA's portfolio risks.
- Enhance the existing business continuity infrastructure.

Corporate Finance

Responsibilities

- **Advise on financial policy issues.**
- **Advise on financing approaches for the broader public sector.**
- **Advise on the financial implications of potential privatizations.**
- **Develop financial options for Ontario agencies and Crown corporations.**

2002-03 Accomplishments

On August 19, 2002, the Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) was introduced. Corporate Finance was responsible for the development of OMEIFA and the Ontario Opportunity Bond program.

Staff participated in a process of consultations with municipal and business leaders in 35 communities around the province. The division also led internal efforts to ensure that OMEIFA was implemented in time for the 2003 municipal budget season. Implementation involved developing governance and administrative procedures and a loan application and approvals process, as well as reviewing and shaping legislation, working with stakeholders and regulators and consulting with the federal government.

On April 22, 2003, OMEIFA began to accept applications from municipalities for its 2003-04 loan program and launched the Ontario Opportunity Bonds campaign. The first campaign was extended by one week to allow more Ontario residents to purchase Ontario Opportunity Bonds.

On August 18, 2003, OMEIFA announced its 2003-04 loan program. Eighty-eight municipalities representing six million Ontarians are eligible for up to $1 billion in low-interest loans over the next three years to support municipal infrastructure.

Corporate Finance also played a key role in completing a $700 million financing for the construction of the permanent Niagara Casino facility. Staff provided advice to the Ontario Lottery and Gaming Corporation, which resulted in an $8.5 million reduction in the financing costs, thereby generating significant savings for taxpayers.

Corporate Finance staff developed a financing strategy for the Ministry of Health and Long-Term Care and the Peterborough Regional Health Centre to obtain financing for the local share of the proposed new $255 million hospital building in Peterborough. A Request For Proposals (RFP) was prepared by division staff on behalf of the hospital to obtain a financial advisor to examine the feasibility of the financing strategy. The new hospital will provide much-needed medical services in an under-serviced area of the province. In addition, the OFA assisted the Ministry of Health and Long-Term Care in reviewing the financing structure for the $100 million Medical and Related Sciences (MaRS) research facility, ensuring that the financing approach is consistent with Provincial finance policies.

Corporate Finance staff continues to assist and advise the Royal Ontario Museum (ROM) on obtaining financing for the Renaissance Redevelopment Project. Through

the efforts of the OFA, the ROM has already obtained a significant reduction in the interest rate for the proposed financing. This reduction translates into an estimated present value saving of $1.6 million. The division continues to work with the ROM to identify further cost savings opportunities.

A wide range of advice and analysis was provided on a variety of other large and small projects for ministries and agencies; for example, electricity restructuring, management of the Ontario Electricity Financial Corporation's non-utility generation contracts, long-term care financing, school board financings, leasing transactions, regulations relating to municipal borrowing and investment powers, business case analysis for loans to Crown agencies such as the Ontario Science Centre and negotiation of a guaranteed loan for the Owen Sound Transportation Company, which operates the Chi-Cheemaun ferry from Tobermory to Manitoulin Island.

Priorities for 2003-04

The division will support the implementation of OMEIFA to ensure that it is fully operational in 2003-04. Also, an investment standards framework will be developed for funds held by Ontario government bodies. The division will develop a formal policy on providing financial advice and assistance to members of the broader public sector where it serves to advance provincial policy interests and reduces costs to taxpayers. In the interim, the division will continue to provide advice and assistance on a case-by-case basis. This will include activities in the school board and long-term care sectors. Another one of the division's key objectives will be to assist ministries and agencies in obtaining financing for the local share of infrastructure projects.

Assistance will be provided to ministries and public bodies on a number of projects:

- the Ministry of Transportation in a review of pooled capital procurement for transportation projects;
- the Ministry of Health and Long-Term Care and the long-term care sector in obtaining cost-effective financing for capital facilities;
- the Peterborough Regional Health Centre to obtain financing for a new $255 million hospital; and
- the Royal Ontario Museum to obtain financing for the Renaissance Redevelopment Project.

The division will continue to assist in the review of other projects such as the extension of Highway 407, courthouses, hospitals and other new initiatives. The division will also continue to assist the Province in the restructuring of the electricity industry.

Capital Markets Treasury

Responsibilities

- **Lead government-wide initiatives aimed at centralizing the Province's cash management and financial services activities.**
- **Provide cash management services for the Province.**
- **Settle debt, securities and derivatives transactions.**
- **Provide banking advice regarding Consolidated Revenue Fund revenues and disbursements.**
- **Manage banking and fiscal agency relations.**
- **Generate accounting, financial and management reporting.**
- **Advise on accounting issues and their implications.**

2002-03 Accomplishments

A number of initiatives were implemented to improve the timing of the Province's cash flows, enhance financial services to ministries and Crown agencies, and strengthen internal operations and controls.

The division contributed to the creation and successful implementation of OMEIFA through the development of the resource submission to Cabinet and relevant Cabinet Sub-Committees, including approaches to minimize the fiscal impact of OMEIFA on the Province; viable options for the resolution of the complexities relating to the treatment of OMEIFA's debt concession costs and consolidation with the financial statements of the Province; operational requirements relating to the capture and process of municipal information on loan applications; an OMEIFA loan database; and the provision of cost-effective banking services for OMEIFA. Similarly, the division performed a resource assessment for OEFC to address its expanded mandate on electricity price protection and supply as well as substantially advanced the work associated with the implementation of the Ontario Nuclear Funds Agreement.

Cash Management

With the objective of promoting good cash management practices and strengthening existing processes in the Ontario Public Service (OPS), the OFA is converting the current cash management guideline into a directive. The directive will be submitted for approval by the Minister of Finance early in 2003-04. The directive requires mandatory implementation by all ministries and agencies and advances good cash management practices on a consistent basis across the government. Staff are continuing to work with the Integrated Financial Information System (IFIS) project to ensure that good cash management practices, as well as cash management requirements, form an integral part of the control and reporting functionality of this system. The implementation of IFIS is complete in nine ministries. Throughout the implementation period, the OFA worked with IFIS and the Shared Services Bureau in identifying and incorporating refinements to the system that will leverage efficient and effective cash management. Using a strategy that combined the effective use of information technology and procedural efficiencies, the OFA has successfully cash managed the complexities associated with the two sets of Consolidated Revenue Fund accounts that are required through the IFIS implementation process.

The division is also involved in the development of a comprehensive cash forecasting system for Retail Sales Tax. This system, which is being developed with data provided

by the Tax Revenue Division of Oshawa, is aimed at minimizing the variances between forecast and actual results. In turn, this will improve cash management forecasting, which will have a positive impact on the Province's Public Debt Interest (PDI) as it will assist in saving interest costs. The division is also working with the Corporate Audit Branch of the OPS Internal Audit Division to review cash management practices enterprise-wide and recommend improvements. The results of the audit along with the release of the cash management directive will contribute to an increased recognition of the importance of cash management as an integral part of the overall management of the Government's resources.

Banking Services

Several banking services, including over-the-counter bank deposits, were relocated to the lowest cost bank service provider, resulting in annual savings of about $300,000. Methods used to determine "fixed" banking fees for some banking services were renegotiated, resulting in reductions of about $200,000 annually.

The OFA's money market custody and settlement business, as well as treasury bill issuance services, were tendered in November 2002. Service providers were awarded the business in March 2003 for a five-year term. Implementation will take place as soon as is practical for all parties. Fees for the custody and settlement services will remain similar to those currently in effect, while treasury bill fees will be reduced by about $200,000 annually.

The division contributed to the successful implementation of the first wave of IFIS ministries by providing banking advice and setting up required bank accounts and associated services critical to the project.

Working with the Office of the Ontario Electricity Restructuring Secretariat, the division provided advice regarding the implementation of the Ontario Nuclear Funds Agreement (ONFA), and jointly with Ontario Power Generation (OPG) established the Ontario Nuclear Fuel Waste Act (NFWA) Trust Fund in 2002. The Province and OPG entered into ONFA to establish, fund and manage segregated funds to ensure sufficient funds are available to pay costs of nuclear station decommissioning and long-term nuclear waste management.

An OFA Banking Services representative continues to represent Canada's provinces on the Canadian Payments Association (CPA) Stakeholder Advisory Council. The OFA representative actively participated on the CPA task force that reduced systemic settlement risk within the Canadian clearing and payment systems by introducing a $25 million cap on paper-based items.

Accounting and Settlements

Enhancements to the accounting, settlement, payment and forecasting services of the OEFC continued in 2002-03. Significant improvements have been made to accommodate complexity and workload with respect to management of OEFC debt, including activities pertaining to non-utility generation (NUGs) contracts. Due to careful planning for the electricity market opening in May 2002, staff and systems were available to assume new activities successfully.

The "Integrated Treasury System" (ITS), a new system that will improve processes, timeliness and efficiency of settlements and recording of payments was implemented

on April 1, 2002. It has been made operational and staff have gathered a comfort level with its use. A review of the industry best practices regarding settlements and fiscal agency functions will continue. Further enhancements to settlement processes will also be facilitated by ITS. Accounting and financial reporting pronouncements and emerging issues have been carefully scrutinized to assess the impact and applicability to the OFA, Province, OMEIFA and OEFC. Policies, procedures and processes have been developed and implemented to provide services to OMEIFA, both short-term as the corporation begins to operate, and longer term as it becomes fully operational.

Priorities for 2003-04

Cash Management

The division will continue with its involvement in the IFIS project to ensure that the OFA's cash management needs are satisfactorily met and the new system contributes to improved forecasts of cash information, thereby further contributing to the reduction of cash volatility. Efforts will go towards providing the necessary training and education to ministries and agencies in the implementation of the Cash Management Directive. Results from the new Retail Sales Tax forecasting system will be assessed, and if appropriate, the concept will be expanded to include the major taxes such as Corporate Tax and Employer Health Tax. The division will continue to provide cash management services to OMEIFA and seek to refine the forecasting and other operational systems and procedures so as to maximize efficiency of its cash utilization.

Banking Services

Custody and settlement and treasury bill issuer services will be transferred from the existing to the new service providers. This will occur over the May to September 2003 time period. On behalf of the OEFC, the division, jointly with Ontario Power Generation, will establish two additional nuclear segregated funds in 2003 as required by the Ontario Nuclear Funds Agreement. The establishment of two segregated funds is required so that sufficient funds will become available to meet costs of nuclear station decommissioning and used fuel disposal that were incurred by Ontario Hydro prior to April 1, 1999. The division will continue to work with these parties to establish a framework to allow for effective supervision and management of the nuclear segregated funds' activities as well as to develop timely and relevant financial reporting.

The division will continue to work with ministries, Shared Services Bureau, Ministry of Consumer and Business Services (MCBS), Integrated Service Delivery Division and Management Board Secretariat e-Commerce Branch in designing and implementing cost-effective revenue collection and payment channels using new and existing banking services. Through the effective liaison with the financial sector, the division will ensure new banking technologies are used that will benefit all government ministries and their client base.

Accounting and Settlement

Accounting developments will continue to be followed to ensure that the OFA remains current with accounting pronouncements that could potentially affect the OFA, OEFC and OMEIFA programs.

A review of industry best practices regarding settlements and fiscal agency functions will continue and appropriate changes will be implemented or considered.

Financial Statements

Summary of Financial Results

Responsibility for Financial Reporting

Auditor's Report

Balance Sheet

Statement of Net Income and Retained Earnings

Cash Flow Statement

Notes to Financial Statements

Summary of Financial Results

The OFA manages the Province's debt and investments and recovers its costs for these services. The OFA also provides treasury and administrative services for the Ontario Electricity Financial Corporation and recovers its costs on a fee-for-service basis.

Until March 31, 2003, the OFA operated the Province of Ontario Savings Office (POSO) as an agent of the Minister of Finance. In the May 9, 2001 Budget, the Minister of Finance announced that the Government would be seeking a buyer for the POSO. On September 26, 2002, the Province released a Request for Proposals to qualified bidders interested in buying the POSO. On January 28, 2003, the Government announced that Desjardins Credit Union Inc. was the successful bidder for the POSO. POSO detailed financial information is reported in the notes to the financial statements.

The OFA's income from operations for the year ended March 31, 2003 was $6.1 million, a decrease of $1.3 million from the $7.4 million reported for the same period last year. This results from lower net income from the discontinued POSO operations, including lower net interest earned of $1.3 million due to an average effective rate decrease of 0.56 per cent (from 3.40% to 2.84%), and higher POSO operating costs of $0.8 million, partly offset by higher miscellaneous revenue of $0.8 million.

Net capital assets of OFA Corporate as of March 31, 2003, were $1.0 million, representing a balance as of March 31, 2002 of $1.4 million, plus purchases of $0.5 million and less amortization of $0.9 million.

Retained earnings of OFA Corporate of $0.04 million (since inception) represent notional amounts. Annually, the OFA's financial results are consolidated on a line-by-line basis with those of the Province. This accounting treatment is in accordance with the Public Sector Accounting Board (PSAB) of the CICA, under which the OFA is considered a government organization. POSO retained earnings of $80 million were transferred to the Province of Ontario as of March 31, 2003.

As an intermediary for the Province, the OFA made loans to public bodies, the repayment of which is to be funded through third-party revenues. These loans are reported in Note 5(i) to the financial statements. They include loans made to the Ontario Northland Transportation Commission for the acquisition of new lumber cars, the Corporation of the City of Windsor for the construction of the Windsor Justice Facility and the Centennial Centre of Science and Technology for the development of a travelling science show. The Province of Ontario approved a loan release for the Metro Toronto Convention Centre, including principal and interest, totalling $145.4 million, effective March 30, 2003.

The outstanding balance of these loans, including capitalized interest, as of March 31, 2003 was $54.9 million, a net decrease of $162.4 million (from the $217.3 million reported a year ago). The decrease is due to the release by the Province of the loan and accrued interest of the Metro Toronto Convention Centre — $145.4 million. In addition, there were repayments by the Metro Toronto Convention Centre — $17.2 million, the Corporation of the City of Windsor — $3.1 million, the Ontario Northland Transportation Commission — $1.9 million and the Centennial Centre of Science and Technology — $0.3 million. The loan release and repayments are partially offset by interest capitalization of $4.5 million and an advance to the Centennial Centre of Science and Technology of $1.0 million.

Summary of Financial Results

The OFA continued to provide investment management services to other public bodies, including the Northern Ontario Heritage Fund Corporation, Ontario Trillium Foundation and Ontario Securities Commission. Commencing in fiscal 2002-03, the OFA also provided investment management services to the Ontario Realty Corporation and Algonquin Forestry Authority. As of March 31, 2003, the OFA managed investments totalling $452.2 million (March 31, 2002 — $367.8 million), as reported in Note 5(ii) to the financial statements.

The OFA also administers the loans receivable and payable of the former Ontario Municipal Improvement Corporation (OMIC). OMIC assets of $79 million consist of debentures receivable from various municipalities and school boards. An equal amount of liabilities are payable to Canada Pension Plan and the Province. The interest earned and paid annually on account of OMIC assets and liabilities amounts to $7.6 million and is expected to remain at this level until 2011, when CPP loans start maturing.

Commencing in April 2003, the OFA will provide treasury and administrative services for the Ontario Municipal Economic Infrastructure Financing Authority and will recover its costs on a fee-for-service basis.

Responsibility for Financial Reporting

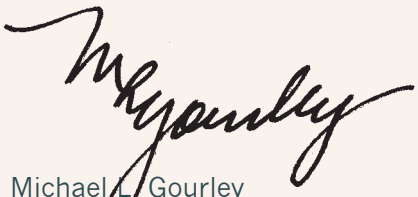
The accompanying financial statements of the Ontario Financing Authority have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgement, 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 27, 2003.

Management maintains a system of internal controls designed to provide reasonable assurance that the 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 Committee of the Board of Directors.

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

The financial statements have been audited by the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:



Michael L. Gourley
CEO and Vice-Chair
Ontario Financing Authority
June 27, 2003

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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Auditor's Report

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 2003, and the statements of net income and retained earnings and of cash flow statement for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2003 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 27, 2003

Erik Peters, FCA
Provincial Auditor

Balance Sheet

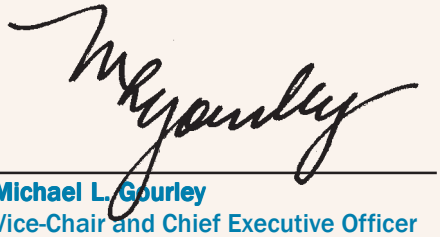
As at March 31, 2003

(in thousands of dollars)		**2003**		***2002***
ASSETS				
Current assets				
Cash	$	136	$	*134*
Accounts receivable		4,002		*4,576*
Loans receivable (note 3)		5		*9*
Discontinued operations (note 2)		-		*2,165,159*
Total current assets	$	4,143	$	*2,169,878*
Long-term assets				
Capital assets (note 4)		975		*1,410*
Loans receivable (note 3)		79,033		*79,038*
Discontinued operations (note 2)		-		*497,381*
Total assets	$	84,151	$	*2,747,707*
LIABILITIES AND RETAINED EARNINGS				
Current liabilities				
Accounts payable and accrued liabilities	$	5,067	$	*6,077*
Due to the Province of Ontario - OMIC debt (note 3)		5		*9*
Discontinued operations (note 2)		-		*2,091,535*
Total current liabilities	$	5,072	$	*2,097,621*
Long-term debt				
Due to CPP and the Province of Ontario (note 3)		79,043		*79,048*
Discontinued operations (note 2)		-		*497,058*
Total liabilities	$	84,115	$	*2,673,727*
Retained earnings		36		*73,980*
Contingencies (note 8)				
Total liabilities and retained earnings	$	84,151	$	*2,747,707*

See accompanying notes to financial statements.

Approved on behalf of the Board:

Bob Christie
Chair



Michael L. Gourley
Vice-Chair and Chief Executive Officer

Statement of Net Income and Retained Earnings

For the year ended March 31

(in thousands of dollars)		**2003**		*2002*
REVENUE				
Interest	$	7,600	$	*7,607*
Cost recovery from the Province		12,791		*11,770*
Total revenue	$	20,391	$	*19,377*
EXPENSES				
Interest on long-term debt	$	7,597	$	*7,601*
Salaries, wages and benefits (note 5)		9,413		*8,692*
Administrative and general		2,458		*2,233*
Amortization		920		*845*
Total expenses	$	20,388	$	*19,371*
Income from continuing operations	$	3	$	*6*
Net income from discontinued operations (note 2)		6,132		*7,407*
Net income from operations for the year	$	6,135	$	*7,413*
Retained earnings, beginning of the year		73,980		*66,567*
Transfer of POSO retained earnings to the Province of Ontario (note 2)		(80,079)		-
Retained earnings, end of the year	$	36	$	*73,980*

See accompanying notes to financial statements.

Cash Flow Statement

For the year ended March 31

(in thousands of dollars)		**2003**		*2002*
Cash flows from operating activities				
Income from continuing operations	$	3	$	*6*
Adjustments to reconcile net income to funds provided by operating activities:				
Amortization		920		*845*
Net change in accounts receivable, payable and accrued liabilities		(436)		*236*
Cash flows from operating activities of discontinued operations		10,608		*7,708*
Cash flows from operating activities	$	11,095	$	*8,795*
Cash flows from financing activities				
Repayments to the Province re: OMIC loans	$	(9)	$	*(297)*
Repayments from holders of OMIC loans		9		*297*
Cash flows from financing activities of discontinued operations		(370,242)		*20,235*
Cash flows from/(used in) financing activities	$	(370,242)	$	*20,235*
Cash flows from investing activities				
Purchase of capital assets	$	(485)	$	*(1,082)*
Cash flows from investing activities of discontinued operations		337,901		*(19,654)*
Cash flows (used in)/from investing activities	$	337,416	$	*(20,736)*
Net increase (decrease) in cash		(21,731)	$	*8,294*
Cash at beginning of the year		21,867		*13,573*
Cash at end of the year	**$**	**136**	***$***	***21,867***
Cash from continuing operations	$	136	$	*134*
Cash from discontinued operations (note 2)		-		*21,733*
Total cash	**$**	**136**	***$***	***21,867***

See accompanying notes to financial statements.

Notes to Financial Statements for the Year Ended March 31, 2003

(all tables are in thousands of dollars)

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's objects are:

- to assist public bodies and the Province of Ontario to borrow and invest money;
- to develop and carry out financing programs, issue securities, and manage cash, currency and other financial risks on behalf of the Province, or any public body;
- to provide such other financial services as are considered advantageous to the Province or any public body;
- to operate offices as provided under the *Province of Ontario Savings Office Act* (sold March 31, 2003 - See note 2), as agent for the Minister of Finance; and
- any additional objects as directed by the Lieutenant Governor in Council.

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

1. Significant Accounting Policies

(i) General: The financial statements are prepared in accordance with Canadian generally accepted accounting principles prescribed by the Canadian Institute of Chartered Accountants.

(ii) Capital assets: Capital assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below, starting in the year of acquisition, i.e., half year depreciation is charged in the year of acquisition and half year in the year of disposal, irrespective of the date of acquisition or disposal.

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

2. Discontinued Operations - Province of Ontario Savings Office

Until the close of business on March 31, 2003, the OFA operated the Province of Ontario Savings Office (POSO) as agent of the Minister of Finance. POSO accepted deposits from the general public, government and other public bodies. These deposits formed part of the Consolidated Revenue Fund and were direct liabilities of the Province. In the May 9, 2001 Budget, the Minister of Finance announced that the Government would be seeking a buyer for the POSO. On January 28, 2003, the Government announced that Desjardins Credit Union Inc. (Desjardins) was the successful bidder for the POSO. The sale closed on March 31, 2003. As at March 31, 2003, the net cash assets payable to Desjardins, receipt of proceeds and costs associated with the sale to Desjardins will be recorded in the Public Accounts of Ontario. The *Province of Ontario Savings Office Privatization Act, 2002* provides a maximum five-year guarantee by the Minister of Finance of POSO

term deposits (principal and interest) purchased up to March 31, 2003. At March 31, 2003 the amount of term deposit liabilities transferred to Desjardins and guaranteed by the Province was $1,281 million, maturing as follows:

Year ending March 31		Principal and interest
2004		$ 710,178
2005		242,567
2006		112,664
2007		119,782
2008		96,172
	Total	**$ 1,281,363**

The financial results of the POSO are presented below for information purposes.

The assets and liabilities of the POSO at March 31, 2003, immediately prior to the sale to Desjardins, including comparative figures, were as follows:

	Prior to sale on March 31, 2003	*As at March 31, 2002*
Assets		
Current Assets		
Cash	$ 8,890	*$ 21,733*
Accounts receivable	22,569	*34,876*
Due from the Province of Ontario	1,696,468	*2,108,550*
Total current assets	$ 1,727,927	*$ 2,165,159*
Capital assets	230	*323*
Receivable from the Province of Ontario	571,185	*497,058*
Total assets	**$ 2,299,342**	***$ 2,662,540***
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 22,692	*$ 30,670*
Funds on deposit	1,625,386	*2,060,865*
Total current liabilities	$ 1,648,078	*$ 2,091,535*
Long-term liabilities		
Funds on deposit	571,185	*497,058*
Total liabilities	$ 2,219,263	*$ 2,588,593*
Retained earnings	80,079	*73,947*
Total liabilities and retained earnings	**$ 2,299,342**	***$ 2,662,540***

The POSO operating revenues and expenditures for the year ended March 31, were as follows:

	2003	*2002*
Revenues		
Interest revenue from the Province of Ontario	$ 85,028	*$ 105,392*
Miscellaneous revenue	2,344	*1,497*
Total revenue	$ 87,372	*$ 106,889*
Expenses		
Interest on short-term debt	$ 43,255	*$ 59,411*
Interest on long-term debt	24,360	*27,275*
Salaries, wages and benefits	9,407	*8,434*
Administrative and general	4,071	*4,041*
Amortization	147	*321*
Total expenses	$ 81,240	*$ 99,482*
Net income from operations	$ 6,132	*$ 7,407*
Retained earnings, beginning of year	73,947	*66,540*
Retained earnings, end of year	$ 80,079	*$ 73,947*

Pension contributions for the discontinued POSO operations for the year ended March 31, 2003 were $392,689 (March 31, 2002 — $361,126). The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the above figures.

At the close of business on March 31, 2003, funds on deposit by government agencies totalled $29.3 million (March 31, 2002 — $298.5 million).

3. Ontario Municipal Improvement Corporation (OMIC)

In accordance with the *Capital Investment Plan Act, 1993*, the Ontario Municipal Improvement Corporation (OMIC) ceased to exist and its assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) and the Province, which OMIC used to make loans to municipalities and school boards under similar terms as its debt.

As of March 31, 2003, the portion of long-term debt maturing in 2003-04 is $5,000 (March 31, 2002 — $9,000 maturing in 2002-03) and is due to the Province. Long-term debt (maturing in the year ended March 31, 2005 and future) comprises debt due to the Province of $22,000 and to the Canada Pension Plan of $79 million (March 31, 2002 — $27,000 and $79 million

respectively, maturing in year ended March 31, 2004 and future). The terms of the outstanding debt are as follows:

Year ended March 31	As at March 31, 2003 Principal Maturing	As at March 31, 2003 Effective Average Interest Rate (%)	*As at March 31, 2002 Principal Maturing*	*As at March 31, 2002 Effective Average Interest Rate (%)*
2003	$ —		*$ 9*	*11.25*
2004	5	11.25	*5*	*11.25*
2005	6	11.25	*6*	*11.25*
2006	6	11.25	*6*	*11.25*
2007	—		—	
2008	—		—	
1-5 years	$ 17		*$ 26*	
6-20 years	79,031	9.61	*79,031*	*9.61*
Total	**$ 79,048**		***$ 79,057***	

4. Capital Assets

The balance of capital assets, net of amortization, is as follows:

	Cost	Accumulated Amortization	Net Book Value March 31, 2003	*Net Book Value March 31, 2002*
Furniture and equipment	$ 261	$ 203	$ 58	*$ 54*
Computer hardware	5,164	4,289	875	*1,057*
Leasehold improvement	416	374	42	*299*
Total	**$ 5,841**	**$ 4,866**	**$ 975**	***$ 1,410***

5. Transactions With the Province and Other Public Bodies

(i) **Financing activities between the Province and other Public Bodies:** Acting as a financial conduit for the Province, the OFA provides financing to various public bodies, the repayment of which is expected from third-party revenues. The funds for these loans are advanced to the OFA by the Province under a credit facility of $2.16 billion. Repayments received from public bodies by the OFA are forwarded to the Province. These transactions are not reflected in these financial statements. In compliance with an Ontario Financing Authority Lending Policy adopted by its Board of Directors on December 17, 1997, each advance received by the OFA under the current facility bears interest at a rate that is equivalent to the rate of interest payable to the OFA on the corresponding loan to a public body(ies). As of March 31, 2003, $55 million (March 31, 2002 — $217 million), including accrued interest, was advanced by the Province to the OFA and must be repaid by the OFA on or before August 31, 2027.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements, consisting of a number of promissory notes for terms not exceeding one year. Interest is payable on the principal plus any capitalized interest. As of March 31, 2003, interest rates on the receivables ranged from 2.94 per cent to 3.03 per cent (March 31, 2002 from 2.2 per cent to 2.4 per cent). The receivables represent debentures, except for the receivable from the Centennial Centre of Science and Technology. The receivable from the Centennial Centre of Science and Technology is a promissory note. It is the OFA's intention to replace the promissory note with term debt, at which point repayment terms will be finalized.

The following represents amounts receivable by the OFA on behalf of the Province, including capitalized interest. These are related party transactions, with the exception of those with the City of Windsor.

	March 31, 2003	*March 31, 2002*
Ontario Northland Transportation Commission	$ 29,180	*$ 31,133*
Corporation of the City of Windsor	24,999	*28,110*
Centennial Centre of Science and Technology	750	*-*
Metro Toronto Convention Centre	-	*158,086*
	$ 54,929	***$ 217,329***

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. Members of the Commission are appointed by the Lieutenant Governor in Council.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of provincial division courthouse and city police headquarters.

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act*. Its Board of Trustees is appointed by the Lieutenant Governor in Council.

The Metro Toronto Convention Centre Corporation (MTCC) is a Crown agency of the Province under the *Metropolitan Toronto Convention Centre Corporation Act*. The majority of directors on the MTCC board are appointed by the Lieutenant Governor in Council. The Province of Ontario approved a loan release for the Metro Toronto Convention Centre, including principal and accrued interest totalling $145.4 million, effective March 30, 2003. The amount of the release reflects a balance at March 31, 2002 of $158.1 million and capitalized interest of $4.5 million, less repayments of $17.2 million.

(ii) Investing for Related Parties: In the normal course of operations, the OFA provides investment management services to other public bodies. Funds managed

on behalf of other public bodies (which are not reflected in these financial statements) as at March 31 consist of the following:

	March 31, 2003	*March 31, 2002*
Northern Ontario Heritage Fund Corporation	$ 244,099	*$ 257,857*
Ontario Trillium Foundation	111,594	*89,924*
Ontario Securities Commission	31,996	*19,999*
Ontario Realty Corporation	62,700	-
Algonquin Forestry Authority	1,803	-
Total	**$ 452,192**	***$ 367,780***

The OFA also manages debt and investment on behalf of the Province and was reimbursed $12.8 million for the year ended March 31, 2003 for these activities (March 31, 2002 — $11.8 million).

(iii) Ontario Electricity Financial Corporation (OEFC): The OFA provides financial services and advice to OEFC and manages its debt portfolio — estimated at $26.8 billion, March 31, 2003 (March 31, 2002 — $29 billion). The OEFC is the agency responsible for servicing and retiring debt and certain other liabilities of the former Ontario Hydro.

(iv) Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA): The OFA assisted with the interim set-up of OMEIFA and will provide debt, investment, cash and related financial management services to OMEIFA on a fee-for-service basis. OMEIFA became operational on April 22, 2003. Start-up costs prior to operations amount to approximately $0.3 million and were absorbed by the OFA.

6. Pension Plan

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit plan. This plan is accounted for as a defined contribution plan, as the OFA has insufficient information to apply defined benefit plan accounting to this pension plan.

The OFA's pension contributions for the year ended March 31, 2003 were $346,552 (March 31, 2002 — $252,543). The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the above figures.

7. Financial Instruments

The carrying amounts for cash, accounts receivable, loans receivable and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

Given that the terms and amounts of the OFA's long-term receivables offset the OFA's long-term debt, providing fair values for these instruments would not add any more useful information to that which has already been presented in these financial statements.

8. Contingencies

The Province of Ontario Savings Office was from time to time involved in various legal proceedings arising out of the ordinary course and conduct of business. Such contingencies would include civil litigation and grievance proceedings arising from the operation of POSO until the date of sale. There are no material claims outstanding. Settlements, if any, concerning these contingencies will be accounted for by the Province in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time. Contingent liabilities arising from the sale of the POSO (Note 2) and which relate to employee severance are the liability of the Ministry of Finance. Desjardins Credit Union Inc. is liable for any employee claims and grievances relating to the period after the sale date.

Under the terms of the sale agreement between the Province and Desjardins, the Province may receive additional sale revenue should balances on deposit remain above a certain threshold on June 30, 2003. Additional revenues, if any, will be accounted for by the Province.

9. Comparative Figures

Certain of the 2001-02 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2002-03.

10. Salaries

The *Public Sector Salary Disclosure Act, 1996*, requires disclosure of Ontario Public Sector employees paid remuneration (e.g. salary, performance-based pay and severance) during the year in excess of $100,000. The amounts paid to such individuals in calendar 2002 are as listed below:

Name	Position	Remuneration Paid	Taxable Benefits
Charles Allain	Manager - Debt Management	$166,183	$ 280
Ken Broadbent	Manager - Foreign Exchange	$116,689	$ 202
Joseph Campos	Director - Risk Control	$145,607	$ 272
Robert Coke	Assistant Deputy Minister - Strategic Research	$146,366	$ 285
James Devine	Manager - Medium-Term Notes & Private Placements	$153,426	$ 264
Michael Gourley	Vice Chair & CEO	$129,593	$ 3,427
Susan Guinn	Director - Province of Ontario Savings Office	$118,294	$ 209
Andrew Hainsworth	Manager - Funding	$152,508	$ 264
John Logie	Manager - Financial Engineering	$116,805	$ 202
Michael Manning	Director - Debt Management	$228,812	$ 369
Gadi Mayman	Executive Director - Capital Markets	$247,788	$ 462
Christine Moszynski	Director - Capital Markets Treasury	$125,913	$ 241
David Peters	Manager - Derivatives	$151,025	$ 264
William Ralph	Director - Corporate Finance	$146,286	$ 264
Ken Russell	Legal Counsel	$138,264	$ 294
Corey Simpson	Legal Counsel	$152,790	$ 326

Corporate Governance

Corporate Governance

Corporate Policies

Corporate Governance

Corporate governance at the Ontario Financing Authority involves processes that permit the effective supervision and management of the OFA's activities by its senior management, the Board of Directors and the Minister of Finance. It includes identifying those individuals and groups that are responsible for the OFA's activities and specifying their roles.

The Ontario Financing Authority's accountability framework flows from its governing statute, the *Capital Investment Plan Act, 1993* and from a Memorandum of Understanding between OFA and the Minister of Finance, as well as from directives issued by Management Board of Cabinet relating to Crown agencies. Together, they provide that the Minister of Finance is accountable to Cabinet for the activities of the OFA. The Chief Executive Officer (CEO) reports to the Board of Directors. In turn, the Board reports to the Minister of Finance.

The Minister of Finance supervises the OFA with the aid of information reported through the Chair of the Board of Directors, who is also the Deputy Minister of Finance, and through senior management of the OFA. The Minister of Finance reviews and approves the OFA's annual business plan, which contains long- and short-term objectives and reports on accomplishments for the preceding year. In keeping with the government's Agency Establishment and Accountability Directive, once every three years the Minister of Finance recommends the OFA business plan to Management Board of Cabinet for approval.

The Board of Directors is appointed by the Lieutenant Governor in Council. It meets at least quarterly and receives regular reports from the CEO and other OFA staff concerning the operations of the OFA and its compliance with applicable policies. The Audit Committee of the OFA Board approves an annual internal audit plan for the OFA and liaises with the internal auditors (Audit Services Division of Management Board of Cabinet) and the Provincial Auditor regarding the OFA's financial reporting and controls. It also reviews and recommends financial policies and the OFA's financial statements to the Board.

The CEO is responsible to the Board of Directors for day-to-day operations. The CEO also ensures that policies and procedures, including financial reporting, remain relevant and effective. Staff are accountable, through senior management, to the CEO.

Corporate Policies

The *Capital Investment Plan Act, 1993* sets out a broad framework for the Ontario Financing Authority's operations. This is supplemented by a memorandum of understanding with the Minister of Finance and internal policies including financial reporting.

In carrying out its mandate, the OFA faces financial risks that are inherent in managing financial assets and liabilities. Risk management policies ensure that these risks are identified, monitored, evaluated, reported and managed. The OFA manages financial risk through a comprehensive framework of debt management infrastructure, policies and procedures.

Overview and Structure

Board of Directors

- Reviews and approves key risk management policies.
- Supervises the management of the Province's debt and investment portfolio.

Audit Committee

- Oversees the financial reporting process on behalf of the Board of Directors.
- Reviews key risk management policies, internal audit reports and the financial statements.

Management Committees

Risk Management Committee

- Reviews daily market updates and outlook.
- Reviews current borrowing, investing and debt management positions and strategies.

Borrowing Strategy Committee

- Reviews economic conditions, fiscal plan and capital markets outlook.
- Reviews borrowing and debt management activities and management reports, cash flows and the public debt interest forecast.
- Reviews credit exposures, operational limits and procedures related to financial operations.
- Approves amendments and exceptions to approved risk management policies and procedures.
- Approves risk management policies for recommendation to the OFA, OEFC and OMEIFA Board of Directors.

Risk Control Division

- Monitors, measures, assesses and reports upon financial market and counterparty risks and performance associated with borrowing, debt management and investment of liquid reserves.
- Reports on a regular and timely manner to the Board of Directors and senior OFA management on the status of the Province's financial market activities, associated exposures and compliance with approved policies.
- Develops risk management policies and procedures in line with "best" industry practices in an evolving business environment and monitors compliance with Board-approved policies, limits and procedures, and monitors portfolio performance and trends.
- Assesses counterparty credit risk and manages rating agency relations.

Risk Management Policy Framework

The OFA has a number of policies in place to minimize financial risk: market risk, credit risk, operational risk, supply availability risk and risks related to the use of derivatives. These policies were developed after reviewing the Group of Thirty's best practices, guidelines and directives of regulatory bodies (e.g., as the Office of the Superintendent of Financial Institutions of Canada, the Bank for International Settlements), and consulting with Canadian bank representatives on their risk management practices. Key aspects of the policies are summarized below.

A. Market Risk

Market Risk is the financial loss attributable to changes in the values of financial indices including interest rates, credit spreads, foreign exchange and liquidity risk.

The market risk policy provides a framework for borrowing and integrates several aspects dealing with the management of market risk. Among the provisions are:

Foreign Exchange Limit — The Province's exposure to unhedged foreign currency is limited to 5 per cent of outstanding debt. Foreign currency exchange exposures are limited to Group of Seven currencies and the Swiss franc or equivalent currencies (i.e., Euro).

Interest Rate Resetting Risk — Interest rate resetting risk is the combination of net floating exposure (i.e., gross floating rate exposure less liquid reserves) and all fixed rate debt to be refinanced within the next 12-month period. The Province is limited to a maximum interest rate reset exposure of 25 per cent of debt.

Public Debt Interest and Debt Management Loss Limits — Actual Public Debt Interest (PDI) must not exceed budgeted annual PDI by more than three per cent as a result of adverse floating rate interest or foreign exchange movements (PDI loss limit). In addition, the CEO establishes a debt management trigger level to ensure that losses will not reach the PDI loss limit.

Liquidity Risk — Liquid reserves are maintained at levels sufficient to ensure the government can meet its short-term financial obligations. Treasury Bill and U.S. Commercial Paper programs are also available to provide liquidity should the need arise.

Debt Maturity Profile — When issuing new debt, the OFA will aim for a smooth debt maturity profile to diversify the interest rate risk of refinancing maturing and floating rate debt.

Risk Measurement — The Province identifies and quantifies exposures to market risk to ensure that risk exposures and losses remain within the approved exposure and loss limits. Exposure to market and credit risk is measured daily.

B. Credit Risk

Credit risk is risk that a counterparty does not meet, or defaults on, its obligations. Credit risk arises when the OFA undertakes financial and derivative transactions. The minimum credit rating of a counterparty for a new swap transaction is

typically AA minus and R1-mid for money market investments. The resulting exposure is capped at mark-to-market limits depending on the counterparty's credit rating.

C. Operational Risk

The OFA manages operational risk through procedures that deal with model risk, legal issues, settlement issues and information systems risks.

Model Risk — The OFA regularly reviews its pricing models for accuracy and compliance with industry standards. It also regularly reviews the valuation of financial instruments.

Legal Risk — The OFA has established procedures and standards to ensure that documentation of debt issues, debt management and money market transactions meets industry standards and is enforceable.

Settlement Risk — The OFA has established internal control procedures to ensure that transactions are settled correctly in a timely manner and are recorded accurately.

Information Systems Risk — The OFA has taken measures to protect the computer systems and offices of the OFA. These include access controls to the building and work areas, monitoring the computer room environment, the establishment of a back-up power source, regular data back-ups, off-site storage, firewalls to protect against unauthorized network intrusions and computer virus scanning. Security is reviewed periodically and when major changes occur.

D. Supply Availability Risk

Supply Availability Risk is the risk associated with having to meet contractual obligations associated with portfolio hedging transactions through open market transactions. As with financial market activities, management of OEFC's NUGs electricity generation portfolio must assess both market and counterparty credit risks. In addition, managing these risks is further complicated by such risks as equipment breakdown, fuel availability and fuel costs, all of which could affect OEFC's ability to meet its contractual obligations through the NUGs' supply.

E. Use of Derivatives

Derivatives are used solely to advance the OFA's objective of providing the Province's financing and liquidity requirements in a sound and cost-effective manner. Derivatives are used to manage exposures arising from existing and planned debt and in a manner consistent with the Financing and Debt Management Plans. Risks that arise from the use of derivatives are identified, monitored, evaluated and managed prudently.

Risk Management and Financial Reporting

The OFA's Board of Directors receives quarterly progress reports on financing and debt management plans and current risk exposures. Also, OFA management provides the Board of Directors with a monthly assessment of performance relative to benchmarks approved by the Board.

The Director of Risk Control reports to the Board of Directors on the OFA's compliance with applicable financial policies. The Deputy Minister of Finance, on behalf of the Minister of Finance, receives weekly financial and financing program reports.

The adequacy and effectiveness of internal controls are examined independently by the Audit Services Division of Management Board Secretariat. It also verifies compliance with policies, procedures and operational limits. The results of these audits are reported to management and the Audit Committee of the Board of Directors.

The OFA prepares annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP) for approval by the Audit Committee and the Board of Directors. Unaudited financial statements are prepared quarterly and presented to the Audit Committee and the Board. The annual financial statements are reviewed by the Provincial Auditor who expresses an opinion on whether they are presented fairly and in accordance with GAAP. The Provincial Auditor's findings are reviewed by the Audit Committee and the Board of Directors. These audited financial statements are tabled in the Ontario Legislature as part of the OFA's Annual Report.

Appendix

Summary of Net Provincial Debt

Credit Ratings

Additional Sources of Information

Summary of Net Provincial Debt

NET PROVINCIAL DEBT Interim 2003[1] ($Millions)	1999	2000	2001	2002	Interim 2003	Plan 2004
Debt Issued for Provincial Purposes [2]						
Non-Public Debt						
Minister of Finance of Canada:						
Canada Pension Plan Investment Fund	$ 10,487	$ 10,369	$ 10,442	$ 10,063	$ 8,768	$ 8,768
Ontario Teachers' Pension Fund	13,213	12,252	11,535	11,043	10,387	9,487
Ontario Municipal Employees Retirement Fund (OMERS)	666	622	569	502	266	103
Colleges of Applied Arts and Technology Pension Plan	89	86	81	73	43	19
Ryerson Retirement Pension Plan	8	8	7	6	5	4
Canada Mortgage and Housing Corporation	1,208	1,181	1,147	1,116	1,078	1,040
Public Service Pension Fund	3,604	3,535	3,446	3,331	3,200	3,052
Ontario Public Service Employees' Union Pension Fund (OPSEU)	1,712	1,679	1,637	1,582	1,520	1,450
Ontario Immigrant Investor Corporation					42	41
	$ 30,987	$ 29,732	$ 28,864	$ 27,716	$ 25,309	$ 23,964
Publicly Held Debt						
Debentures and Bonds[3]	$ 72,464	$ 72,549	$ 73,279	$ 76,502	$ 81,553	$ 85,364
Treasury Bills	950	3,002	2,680	2,118	2,971	2,626
U.S. Commercial Paper[3]	272	396	523	809	1,256	1,256
Other	460	458	447	447	438	435
	$ 74,146	$ 76,405	$ 76,929	$ 79,876	$ 86,218	$ 89,681
Total Debt Issued for Provincial Purposes	$ 105,133	$ 106,137	$ 105,793	$ 107,592	$ 111,527	$ 113,645
Debt Issued for Investment in Electricity Sector[4]	—	$ 8,885	$ 8,885	$ 8,885	$ 8,885	$ 8,885
Deposits with Province of Ontario Savings Office[5]	$ 2,517	$ 2,812	$ 2,482	$ 2,438	$ —	$ —
Other Liabilities[6]	$ 19,237	$ 19,403	$ 15,940	$ 12,815	$ 14,289	$ 10,058
Total Liabilities:	$ 126,887	$ 137,237	$ 133,100	$ 131,730	$ 134,701	$ 132,588
Less: Total Assets	$ (12,150)	$ (23,522)	$ (22,466)	$ (21,540)	$ (24,995)	$ (22,882)
Net Provincial Debt[7] **- Before Provisional Adjustment for CCRA Error; and Accounting Changes**	**$ 114,737**	**$ 113,715**	**$ 110,634**	**$ 110,190**[7]	**$ 109,706**	**$ 109,706**

Source: Ontario Ministry of Finance.

(1) The definition of Net Provincial Debt for 2002-03 and 2003-04 includes the Net Investment in Tangible Capital Assets. For all years, the definition of Net Provincial Debt represents total Liabilities less Financial Assets.

(2) Includes debt issued by Government Organizations.

(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.

(4) Debt issued for Investment in Electricity Sector comprises notes payable to Ontario Electricity Financial Corporation as a result of a debt for equity swap between the Province and its two wholly owned subsidiaries, Ontario Power Generation Inc. and Hydro One Inc.

(5) On January 28, 2003, the government announced that Desjardins Credit Union Inc. was the successful bidder for POSO. The sale is effective March 31, 2003. POSO deposits are being replaced with long-term and short-term debt. Accordingly, the POSO liability of $2.2 billion is reflected in Other Liabilities in Interim 2003. Funds were transferred to the purchaser on April 1, 2003.

(6) Other Liabilities includes Accounts Payable, Accrued Liabilities and Pensions and reflect amounts Before Provisional Adjustment for CCRA Error; and Accounting Changes.

(7) For more information on Net Provincial Debt, please see 2001-02 Public Accounts of Ontario, Statement of Financial Position.

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 "plus" or "minus" (or a high or low) to indicate the relative strength of the rating within that category. The current long-term ratings of the Province of Ontario are as follows:

Standard & Poor's Corporation (New York)	AA
Moody's Investors Service (New York)	Aa2
Dominion Bond Rating Service (Toronto)	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. The current short-term ratings of the Province of Ontario are as follows:

Standard & Poor's Corporation (New York)	A-1+
Moody's Investors Service (New York)	P-1
Dominion Bond Rating Service (Toronto)	R-1 (mid)

Additional Sources of Information

Internet: www.ofina.on.ca

Provides information on Ontario's debt, debt issues and retail products and contains publications from the Ontario Financing Authority and Ontario Ministry of Finance.

Publications

Ontario Financing Authority Bulletins and Fact Sheets

OFA Bulletins and *Fact Sheets* provide quarterly updates of Ontario's Finances and Government initiatives of interest to the financial community.

Ontario Budget

Paper D, Ontario's Financing Plan, provides a discussion of the Province's borrowing and debt management activities for the fiscal year ended and reviews the outlook for the fiscal year ahead.

Ontario Economic Outlook and Fiscal Review

The *Ontario Economic Outlook and Fiscal Review* provides a semi-annual update on the Province's economic outlook, fiscal and borrowing plan.

Form 18-k

The Province's annual report to the U.S. Securities and Exchange Commission.

Contact Information

Enquiries regarding information on the Province or OFA should be directed to:

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