

ontario **financing** authority

2001 Annual Report



Ontario

Ontario Financing Authority

PROFILE

On behalf of the Province of Ontario, its Crown corporations and other public bodies, the Ontario Financing Authority:

- ▲ executes all borrowing, investment and financial risk management activities;
- ▲ manages the Provincial debt;
- ▲ advises on financial policies and projects;
- ▲ provides financial and cash management services;
- ▲ provides financial services and advice to the Ontario Electricity Financial Corporation;
- ▲ operates the Province of Ontario Savings Office.

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 Ontario Financing Authority.

HIGHLIGHTS IN 2000-01

On January 29, 2001, Standard and Poor's upgraded the Province's debt rating to AA from AA-. This is the first upgrade from Standard and Poor's since 1988. On February 9, 2001, Moody's Investors Service reaffirmed Ontario's Aa3 rating and revised the outlook to "positive" from "stable". This is the first positive rating development for the Province by Moody's since 1974.



The Ontario Financing Authority completed the Province's 2000-01 long-term public borrowing program, \$8.5 billion, in a sound and cost-effective manner. Through successful timing of debt issues, the OFA saved the Province \$41 million, on a present value basis versus the benchmark.



The sixth annual Ontario Savings Bond campaign raised \$3.4 billion, the biggest provincial savings bond campaign in Canadian history.



The Ontario Financing Authority successfully completed its first two bond auctions. The bond auctions raised \$500 million, without commission costs, resulting in estimated savings of \$1 million.



The elimination of the Province's credit facility used in the issuance of commercial paper resulted in savings of U.S.\$266,000.



The Ontario Financing Authority acted as financial advisor for the Ontario School Boards Financing Corporation's (OSBFC) first two bond issues. These bond issues resulted in significant savings for the Corporation.

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STATEMENT FROM THE CHAIR



Bob Christie
Chair

It is with pleasure that I present the 2001 Annual Report of the Ontario Financing Authority. This report outlines the Ontario Financing Authority's objectives and responsibilities, operational highlights and financial results for the year April 1, 2000 to March 31, 2001 and includes priorities for the next year.

The Ontario economy was strong in 2000, with real Gross Domestic Product (GDP) growth at 5.5 per cent. Growth in 2000 was driven by robust investment in machinery and equipment, strong consumer spending and continued growth in housing. Despite a slowdown in the U.S. economy towards the end of 2000 and the first half of 2001, private-sector economists are, on average, projecting Ontario's real growth to be 2.3 per cent in 2001.

In 1999-2000 Ontario recorded a \$668 million surplus, and with a \$3,192 million surplus projected for 2000-01, Ontario will have achieved two consecutive surpluses. Debt reduction remains a key priority of the government. Net Provincial Debt as of March 31, 2001 was \$110.7 billion, down from \$113.7 billion in the preceding fiscal year.

Credit rating agencies have recognized the government's balanced budget achievements and commitment to debt reduction. On January 29, 2001, Standard and Poor's upgraded the Province's debt rating to AA from AA-. This is the first upgrade from Standard and Poor's since 1988. On February 9, 2001, Moody's Investors Service reaffirmed Ontario's Aa3 rating and revised the outlook to "positive" from "stable". This is the first positive rating development for the Province by Moody's since 1974.

Although the Province has a balanced budget, borrowing levels remain high due to significant amounts of debt maturities in the next five years. These high levels of maturities place an additional emphasis on continued cost-effective and prudent debt management practices.

A handwritten signature in black ink, appearing to read 'Bob Christie', written in a cursive style.

Bob Christie
Chair
Ontario Financing Authority

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER



Gadi Mayman
CEO and Vice-Chair

I am proud to report on the accomplishments of the Ontario Financing Authority and its staff in 2000-01. The Ontario Financing Authority achieved its primary goal by borrowing \$8.5 billion in long-term public markets. While the government recorded a surplus, the Province continued to borrow mainly to meet requirements for maturing debt, accruals and consolidations and early bond redemptions.

A bond auction program was initiated this year to issue two-to four-year bonds in order to save commission costs and develop shorter-term benchmarks. Two bond auctions raised \$500 million and resulted in estimated savings of \$1 million in commission costs.

Due to improvements in the Province's fiscal situation and declining liquidity concerns, we were able to convince the credit rating agencies that the Province no longer required a credit facility to back-up its commercial paper issuance. This resulted in savings of U.S.\$266,000.

The Ontario Financing Authority acted as financial advisor to the Ontario School Boards Financing Corporation (OSBFC) for their first two bond issues and was successful in helping OSBFC to achieve lower borrowing costs.

Turning to the next fiscal year, 2001-02, we look forward to building on last year's successes.

New options will be pursued in issuing Ontario's debt through the Internet and exploring the feasibility of using the Internet to facilitate the sale and distribution of Ontario Savings Bonds. The Ontario Financing Authority will continue to build on the successes of its bond auctions.

In addition, we will continue to assist Ontario SuperBuild Corporation in the fulfillment of that Corporation's mandate by providing financial advice on major infrastructure projects and asset divestitures.

We at the Ontario Financing Authority are committed to the successful completion of our 2001-02 objectives, providing Ontario taxpayers with the excellent service they have come to expect.

A handwritten signature in black ink that reads "Gadi Mayman". The signature is stylized and includes a long, sweeping flourish that extends upwards and to the right.

Gadi Mayman
Vice-Chair and Chief Executive Officer (Interim)
Ontario Financing Authority

ONTARIO FINANCING AUTHORITY

Objectives and Responsibilities



The Board of Directors



Employees of the Ontario Financing Authority

Objectives and Responsibilities

The Ontario Financing Authority (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, privatization, sale of Government assets and alternative financing proposals.

▲ **Provides Financial and Cash Management Services**

The OFA provides banking services, operational advice, cash management policy advice and cash management services 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 the Ontario Electricity Financial Corporation**

The OFA provides financial services and advice to the Ontario Electricity Financial Corporation (OEFC). 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.

▲ **Operates the Province of Ontario Savings Office**

The OFA operates the Province of Ontario Savings Office (POSOS), a source of retail financing for the Province. Currently, POSOS has 23 branches and five agencies.

The Ontario Financing Authority is committed to performing all of these activities to the highest professional standards.

The 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. For example, it approves the OFA's annual corporate plan and receives regular reports regarding financing activities. The corporate plan sets out the OFA's major objectives and the strategies for achieving them. It is revised annually, and 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 at least quarterly. For most of 2000-01, 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 2000-01:

Dr. Bob Christie, Chair of the Ontario Financing Authority Board of Directors and Deputy Minister of Finance. 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 Assistant Deputy Minister, Policy Coordination in Cabinet Office and previously held various senior positions with the Ministry of Finance. Bob holds a doctorate in Economics from Queen's University.

Gadi Mayman, Vice-Chair and Chief Executive Officer (Interim), of the Ontario Financing Authority. Prior to assuming this position, Gadi was Executive Director of the Ontario Financing Authority. Before joining the Ontario Ministry of Finance in 1991, Gadi worked as a Treasury Officer at the Export Development Corporation in Ottawa and prior to that he worked in the International Division of the Toronto Dominion Bank for five years. Gadi received a B.A.Sc. in Industrial Engineering from the University of Toronto in 1981, and an MBA from the University of Western Ontario in 1988.

John Caliendo, Chief Financial Officer of Hotline Communications Ltd. John 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 nonprofit associations. He joined the Board of Directors in September 1997.

Winnie Wong, Partner, Wong Po Partners. Winnie is a chartered accountant and also holds an MBA from York University. Winnie has worked for international banks in trade financing, credit and marketing, foreign exchange and corporate lending.

Frank Potter, Chairman of Emerging Markets Advisors Inc., Toronto. 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, President of Cartesian Capital Corporation, a venture capital and private equity firm. Prior to his current position, Tye was Chairman of Deutsche Bank Canada Ltd. and Managing Director of Deutsche's Global Metals & Mining Group. He also spent 11 years at Nesbitt Burns Inc. and Burns Fry Ltd. where he held various senior positions. Tye is a member of the Board of Directors of MacDonald Dettwiler & Associates and is a member of the Law Society of Upper Canada. He is a graduate of the University of Guelph and Osgoode Hall Law School.

Tony Salerno, formerly the Chief Executive Officer of the Ontario Financing Authority, retired from the Ontario Public Service in August, 2000.

Employees of the Ontario Financing Authority

Economic globalization is increasing competition and the need for continuous innovation. New technologies are transforming workplaces everywhere. The Ontario Financing Authority is adapting to this environment by establishing a climate of continuous learning for its employees.

Employees at the OFA encompass a broad range of skilled professionals and technicians. To retain existing employees and attract new ones, the OFA has taken steps to establish a workplace where employees are motivated to undertake challenging work and continuous learning opportunities.

Staff are encouraged to participate in internal job rotations and other developmental opportunities throughout the organization. These opportunities enhance knowledge sharing and also develop skill sets, which ultimately increase staff efficiency. The OFA also participates in the Ontario Public Service (OPS) Internship Program, which gives recent university graduates work experience.

The OFA is committed to providing a high level of service to its stakeholders. To accomplish this objective, the OFA ensures that its employees are equipped with the knowledge, skills and capabilities to meet current and future business needs. Staff pursue educational courses such as the Chartered Financial Analyst (CFA) program and attend conferences and courses to keep abreast of leading-edge advances in finance, accounting and technology. Internal "Learning Lunch" workshops were continued throughout 2000-01, with several divisions taking the opportunity to educate staff on their respective operations.

The Ontario Financing Authority recognizes that effective organizations use human resources planning to anticipate changing workforce requirements. For this reason, the OFA is designing an overall human resource strategy that will focus on its staffing requirements for the purpose of ensuring the continuous delivery of the OFA's expert services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Annual Report provides management's discussion and analysis of the business environment, accomplishments in 2000-01 and objectives for 2001-02.

The Business Environment



Capital Markets Division



Risk Control Division



Corporate Finance Division



Capital Markets Treasury Division



Province of Ontario Savings Office

The Business Environment 2000

Financial Markets in Review

Financial markets were very volatile in 2000-01, particularly during the second half of the year.

Both the U.S. Federal Reserve and the Bank of Canada raised their interest rates (by 100 basis points and 50 basis points, respectively) in 2000 to pre-empt a rise in inflationary pressures. In early 2001, increased fears of a sharp slowdown in economic activity convinced the U.S. Federal Reserve to move aggressively and cut its discount rate by 250 basis points before the end of May 2001. The Bank of Canada followed the U.S. Federal Reserve and cut interest rates by 125 basis points by the end of May 2001.

Both Canadian and U.S. Treasury 10-year bond yields declined during 2000-01, particularly toward the end of the year due to increased speculation of rate cuts on both sides of the border. During most of the year, Canadian 10-year bond yields traded slightly below their U.S. counterparts largely due to better relative inflation performance in Canada.

The Canadian dollar weakened against the U.S. dollar during 2000, but it held its own or strengthened relative to most of the other major currencies.

Economic Review

For 2000, Ontario's economy continued its strong expansion, with real GDP rising 5.5 per cent. This followed a 6.1 per cent rise in GDP in 1999. Economic growth in 2000 was propelled largely by domestic demand, with robust machinery and equipment investment, strong consumer spending, and residential construction leading the way. Rounding out overall growth was a \$423 million improvement in Ontario's net external trade position (exports less imports) in 2000, along with a \$4.7 billion build-up in business inventories for the year. Prices, measured by the GDP price deflator, rose 2.3 per cent in 2000, up from the 0.3 per cent advance in 1999.

Technology

The year 2000 saw the continued growth in usage of digital technology for a broad range of programs and services within the financial industry and elsewhere. Today, individuals and businesses can obtain an increasing array of financial and other information and services through electronic channels. These electronic channels include websites, interactive voice response systems, electronic payment systems and Internet-based banking systems. In the future, the number and range of services offered will continue to expand as network connections become faster and more reliable and as newer technologies such as video and mobile network connections become more common. Maintaining technology and security at levels that can support these new initiatives is an ongoing business practice.

During the past year, significant improvements were made to improve the functionality, performance, reliability and security of the OFA's technology infrastructure and business systems used for treasury applications and risk management. Among other accomplishments was the development of a web-based Treasury Bill Auction system for implementation in the near future and enhancements to the Ontario Financing Authority and Province of Ontario Savings Office websites.

In this evolving environment, the OFA constantly monitors new technological developments to determine how they can be utilized to enhance the level of service and reduce costs.

Responsibilities

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

2000-01 Accomplishments

The OFA's primary objective is to ensure that Provincial borrowing and liquidity needs are met cost-effectively, minimizing interest costs within approved risk policies and exposure limits. In 2000-01, borrowing of \$8.5 billion was completed in the long-term public markets, mainly to fund maturing debt, accruals and consolidations and early bond redemptions. Of the \$8.5 billion in long-term public borrowing, \$7.2 billion was borrowed from the Canadian dollar market, just under \$0.4 billion from the Japanese yen market and over \$0.9 billion from the U.S. dollar market.

Over 80 per cent of the \$8.5 billion in long-term public borrowing was completed in the Canadian dollar market. Canadian dollar market borrowing included over \$3.4 billion raised from the sixth issue of Ontario Savings Bonds (OSB), several domestic issues, and \$75 million from a Euro-Canadian dollar issue. In addition, the OFA borrowed \$0.6 billion from the Canada Pension Plan (CPP). The Province continued to utilize 20-year CPP funds as a source of financing; however, some CPP funds were not taken as they were more expensive than alternative funding sources.

The OFA attempts to diversify the Province's sources of funding by accessing international markets, provided it is cost-effective. There were very few opportunities to borrow in foreign currencies and hedge the issues back into Canadian dollars below the Province's domestic borrowing costs. The OFA took advantage of such rare opportunities to reopen two U.S. Dollar Global issues, raising the equivalent of just over \$0.8 billion in Canadian dollars, as well as, over \$0.1 billion from a floating rate U.S. Dollar Euro Medium Term Note.

The OFA borrowed just under \$0.4 billion through the re-opening of an existing Yen Global issue. This issue was left in Japanese yen to take advantage of the substantial interest rate differential between Canada and Japan.

The 2000 Ontario Savings Bond campaign was the largest campaign in provincial history, raising \$3.4 billion.

The Province raised almost \$3.0 billion in long-term public borrowing on behalf of the Ontario Electricity Financial Corporation (OEFC).

Timing of Debt Issues

Capital markets were very volatile through 2000-01. In the early part of the year, concerns about continued central bank tightening were eventually replaced by the likelihood of an economic slowdown in the later part of the year. The yield curve steepened in the second half of the fiscal year as short-term interest rates fell in response to actual and expected central bank easing.

The Province adapted to these developments by issuing debt in a wide range of maturities in response to changing market conditions throughout the year. Most of the longer-term debt was issued in the first half of the year when the yield curve was inverted.

The Ontario Financing Authority was also able to capitalize on increased international interest following the upgrade in Ontario's credit rating to AA (from AA-) by Standard and Poor's and the change from "stable" to "positive" outlook from Moody's Investors Service. Shortly after these upgrades, the OFA launched a U.S. Dollar Global issue and was successful

Capital Markets Division

in achieving all-in funding costs several basis points lower than it would have received in the Canadian domestic market.

Through successful timing of debt issues in 2000-01, the OFA saved the Province \$41 million, on a present value basis versus the benchmark.

Reducing the Cost of Borrowing

An initiative was undertaken this year to auction two-to four-year bonds in order to save commission costs and develop shorter-term benchmarks. As a result, the Province developed a bond auction program successfully launching two issues and raising \$500 million with estimated savings of \$1 million.

The OFA continued to use its Medium-Term Note program for cost-effective bond issuance. The Province launched a total of seven issues consisting of one floating-rate issue and six fixed-rate issues, raising \$0.5 billion.

Debt Management Activities

In order to promote liquidity and save money, the OFA repurchased nearly \$1 billion of smaller, higher-yielding Ontario bonds and replaced them with larger, more cost-effective benchmark issues.

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, 2001, the Province's total swap portfolio had a notional value of \$74.6 billion, which consisted of \$34.2 billion in cross-currency swaps and \$40.4 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 table on page 15 represents the limits and strategies the OFA employs to ensure that market, credit and liquidity risks are managed in a sound and cost-effective manner.

Capital Markets Division

Policy	Status
Foreign Exchange Risk As per the OFA's market risk policy, unhedged foreign currency exposure is limited to 5 per cent of outstanding debt.	Net foreign exchange exposure was 1.7 per cent of debt as of March 31, 2001. During the fiscal year, foreign exchange exposure was within approved limits.
Interest Rate Resetting Risk The Province's exposure to interest rate resetting risk is the combination of net floating rate exposure (i.e. gross floating rate exposure less liquid reserves) and all fixed rate debt maturing within the next 12-month period. The Province is limited to having a maximum interest rate reset exposure of 25 per cent of outstanding debt.	The percentage of interest rate resetting exposure (net of liquid reserves) was 12.1 per cent of outstanding debt as of March 31, 2001. During the fiscal year, floating interest rate exposure was within approved limits.
Refinancing Risk Term selection for new borrowing is aimed at achieving a smooth maturity schedule to diversify the interest resetting risk of refinancing debt maturities.	During 2000-01, maturities amounted to \$8.1 billion. In 2001-02, maturities are estimated at \$9.6 billion.
Credit Risk Ontario typically enters into new 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 \$6.0 billion in 2000-01. The Province's Treasury Bill and U.S. Commercial Paper programs have authorized limits of \$9.0 billion (\$6.0 billion for the Province and \$3.0 billion for the OEFC) and \$2.5 billion, respectively.

Priorities for 2001-02

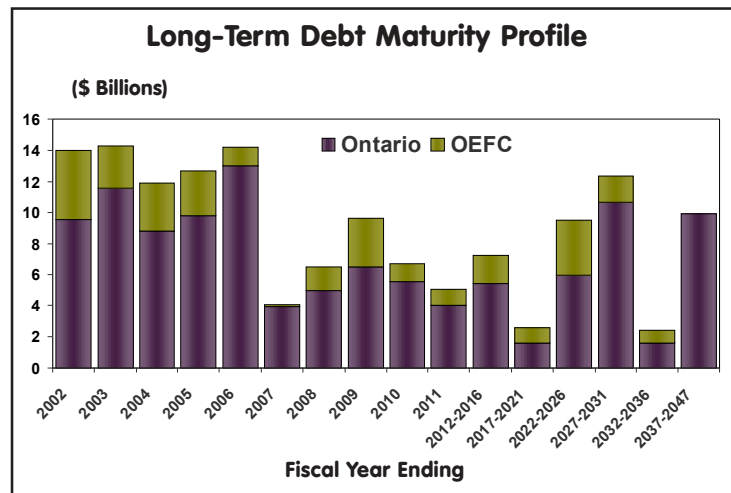
The Province's total long-term public borrowing for 2001-02 is projected at \$9.1 billion. The Province will borrow to refinance \$9.6 billion in maturing debt, \$2.3 billion related to accruals and consolidations and \$1.0 billion as a provision for early bond redemptions. The high level of maturing debt over the next five years place additional emphasis on the need to maintain cost-effective and prudent debt management practices.

The majority of borrowing will likely be completed in the domestic market. An additional source of domestic borrowing will be the Canada Pension Plan (CPP). The actual amount borrowed from the CPP will depend on whether it is cost-effective relative to other financing alternatives. In addition, a seventh issue of Ontario Savings Bonds will be included in the 2001-02 financing program. The size of the campaign will depend upon 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 plans to implement an Internet auction facility for the Province's Treasury Bills and will look at the feasibility of offering Ontario Savings Bonds using the Internet. The OFA will continue to build on the successes of its bond auctions.

The OFA also plans to borrow on behalf of the Ontario Electricity Financial Corporation (OEFC). With maturing debt of \$4.4 billion and a projected cash surplus of \$0.8 billion in 2001-02, the OEFC's total financing requirements are projected at \$3.6 billion for the fiscal year.



Responsibilities

- ▲ Monitor and measure financial risks and performance associated with borrowing, debt management and investment of liquid reserves.
- ▲ Develop risk management policies and monitor compliance.
- ▲ Forecast and analyze Public Debt Interest for the Provincial budget and quarterly fiscal updates.
- ▲ Assess counterparty credit risk and manage rating agency relations.
- ▲ Provide systems development and information technology support.

2000-01 Accomplishments

In early 2000-01, the Board of Directors approved the use of a risk budgeting approach to measure the performance of the Debt Management Program. The division had developed and implemented the methodology on a trial basis in 1999-2000. Also in 2000, as part of an annual process, risk management policies were reviewed and updated where needed, to ensure that industry best practices are followed in the OFA.

The division succeeded in implementing new analytical tools to improve risk measurement and reporting. The internally developed Value-at-Risk (VaR) model was enhanced by the implementation of adjustments to capture the non-linear nature of currency and interest rate option positions. A framework for stress testing and scenario analysis was developed to supplement the VaR measure by simulating the impact of extreme market conditions on existing positions and strategies.

The division organized meetings with credit rating agencies after the presentation of the Ontario Budget and the Fall Economic and Fiscal Outlook Statement with the objective of obtaining further ratings improvements for the Province. On January 29, 2001, Standard & Poor's raised its issuer credit rating on the Province of Ontario to AA from AA-. This was the first upgrade from Standard and Poor's since 1988. On February 9, 2001, Moody's reaffirmed Ontario's rating at Aa3 and changed the outlook to positive from stable. This was the first positive rating development for the Province by Moody's since 1974.

The division also successfully demonstrated that, due to the elimination of the Province's deficit and improving finances, the Province no longer required its credit facility to support its U.S. commercial paper issuance program. The agencies accepted the rationale, and subsequently the credit facility was eliminated along with the annual standby fee.

During 2000-01, the availability and performance of the technology platform was maintained at a high level. Better than 99 per cent availability of the network, production and end-user servers was achieved. Infrastructure functionality was expanded and efficiency improved to ensure the availability of sufficient computing capacity to satisfy growing business needs.

Development of an Integrated Treasury System (ITS) is under way. The system, when complete, will combine an external Settlement system and internally developed blotter to eliminate data duplication and improve data quality. Completion of the ITS is expected in 2001-02. The first phase, electronic authorization of transactions on the blotter, is expected to be made operational early in fiscal 2001-02, pending a review of controls by the Internal Audit division. The new system is expected to provide a high degree of operational efficiency and control, and reduce operational risk. In the past year enhancements to application systems also included the addition of a new cash management forecasting component to the Cash Management System, and improvements to the risk reporting systems.

Risk Control Division

The security of the OFA's systems and information is a prime concern. To ensure that the systems are protected from unauthorized access, the OFA has stringent security controls in place. During 2000-01 an outside firm, which specializes in technology security, was hired to check and evaluate the security of the systems. Their assessments, including attempts to penetrate the OFA networks, affirmed the security in place.

Priorities for 2001-02

During 2001-02, the division will develop and update financial risk measures and risk management policies. Work to upgrade and enhance performance measurement and reporting systems will continue.

The division will also conduct strategic studies in the coming year, in the area of the Provincial debt structure and performance measurement. Work will also be initiated to develop commodity risk measurement tools for the management of the Non-Utility Generation (NUGs) contracts. At the same time, the OEFC's risk management policies will be updated to cover NUGs.

Ongoing functions, such as risk measurement and performance reporting, monitoring of compliance of program positions, monitoring model risk, projecting the PDI budget and analyzing variances, enhancing market and credit risk monitoring, and reviewing and improving performance evaluation methodologies, will continue.

The Government's commitment to balanced budgets and debt reduction will create an environment that provides the Province opportunities for further rating improvements. Ongoing communications with credit rating agencies will be crucial in ensuring that the Province's ratings are based on current and timely information.

Finally, the division will continue to develop and maintain the OFA's computerized business applications, desktop tools and underlying IT infrastructure to ensure that future business needs are met. Key applications in the development stages include a new performance and risk reporting system (Persy) and the Accounting and Financial Reporting System. In addition, the OFA will continue to actively monitor security developments along with the ongoing updating of security measures, as the security of information systems will remain a high priority.

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.
- ▲ Provide support to the OEFC including management of the non-utility generator contacts.

2000-01 Accomplishments

The division acted as financial advisor to the Ontario School Boards Financing Corporation (OSBFC), a group of nine school boards, for two bond issues during the year. The first bond issue raised \$200 million and the second bond issue raised \$345 million. While the first bond issue resulted in savings for the participating school boards, the savings increased substantially for the second issue both in terms of financial savings and staff savings. Because of the savings, other school boards have joined the OSBFC.

Division staff continued to work with the Office of Electricity Restructuring on a number of issues related to the restructuring of the electricity industry. These included the lease of the Bruce Nuclear Plant to British Energy and the negotiation of a Nuclear Risk Sharing Agreement with Ontario Power Generation Inc.

On behalf of the Ontario Electricity Financial Corporation (OEFC), the OFA made considerable progress in advancing the contract revision process for the Non-Utility Generation (NUG) contracts so these can be integrated into the competitive electricity market when it opens. This process required the OFA to work actively with the Independent Electricity Market Operator (IMO) to understand how the NUGs will be affected by the IMO market rules. The OFA was also successful in retaining a contract manager to manage the NUG contracts on behalf of the OEFC.

The division was an active participant in the Ontario SuperBuild Corporation's review of a number of agencies/program areas as candidates for privatization, including Ontario Power Generation Inc., Hydro One, Teranet, Air Services, Courthouses and the Province of Ontario Savings Office.

Advice was provided to the Olympic Sport and Waterfront Development Agency on Toronto's Olympic bid and the Waterfront Revitalization Task Force Report. This included participating in negotiations with respect to a Provincial guarantee for the city's 2008 Olympic bid.

Working with the Ministry of Health and Long-Term Care, the OFA began to pursue options for alternative approaches to funding the expansion of long-term care facilities. This included consultations to identify ways to lower financing costs in support of the Province's long-term care initiative.

Priorities for 2001-02

Working with the Independent Electricity Market Operator (IMO), negotiations with Non-Utility Generators (NUGs) will be completed in order to ensure their timely integration into the electricity market while minimizing costs. Further, the division will evaluate the performance of the recently retained contract manager and implement a policy on unsolicited bids to buy out the NUG contracts.

The division will continue to assist the Ontario SuperBuild Corporation in its reviews of potential public-private partnerships in the electricity sector and other areas and in the development of new approaches to investment in capital infrastructure projects.

The division will continue to provide assistance to the Olympic Sport and Waterfront Development Agency to assist it in supporting the City of Toronto for the 2008 Olympics and in implementing the recommendations of the Waterfront Revitalization Task Force.

Finally, the division will assist in developing approaches that will facilitate access to lower-cost financing for school boards, universities, hospitals and long-term care facilities, and will review the Province's policies on Crown agency powers related to financing and investment.

Responsibilities

- ▲ Lead government-wide initiatives aimed at centralizing the Province's cash management and financial services activities.
- ▲ 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.

2000-01 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.

Cash Management

To promote cash management awareness and the increased use of businesslike cash management practices in Ontario ministries, the division made a presentation to the Integrated Financial Information System (IFIS) Inter-ministry Committee. The main topic of the presentation was the importance of cash management information requirements and controls to be incorporated into the IFIS project. The objective of the IFIS project is to develop a single enterprise-wide integrated financial information system for the Ontario Public Service (OPS). This project entails identifying and addressing the needs of all key stakeholders and developing solutions that can be implemented across the OPS.

The division provided input to the IFIS project through several channels: a full-time secondment of a senior cash management staff person to the IFIS project team who participated in the specification and development of IFIS's cash management functionalities; membership in the Inter-ministry committee overseeing IFIS's design and implementation; membership in several IFIS project task forces; and periodic meetings with IFIS project staff to receive updates and provide feedback.

It is expected that through these efforts IFIS will be able to provide better cash management information.

The division also provided advice to Shared Services Bureau staff on prudent cash management principles.

Banking Services

Throughout 2000-01, the division worked with the Ministry of Finance, other ministries, ServiceOntario, Ontario Business Connects and the e-Government Task Force to design and implement cost-effective revenue collection and payment channels. In particular, several ministries introduced Internet web sites whereby the public can acquire and pay for products and services by credit card. Also an e-file service was introduced by the Ministry of Finance, to enable the public to submit and settle corporate income and employee health taxes.

Capital Markets Treasury Division

The division successfully tendered for the continuance of credit card (Visa and MasterCard) and debit card services for a further five-year term. Additionally, the OFA negotiated a contract with American Express to permit the public to use Amex cards to pay Ontario for certain services.

Accounting and Settlements

Work continued on enhancing the accounting and settlement services of the Ontario Electricity Financial Corporation (OEFC). Staff and support systems were organized and procedures were improved to carry out the OFA's new responsibilities with respect to management of OEFC debt, which the OFA assumed in 1999-2000.

Foreign exchange translation research was provided for review by the Public Sector Accounting Board (PSAB). Further research on alternative financial presentations will be continued. The Accounting and Settlements section also provided input regarding the Integrated Financial Information System (IFIS) to ensure that the financial and management reporting needs of the Province and the OFA are met.

The Phase I module of the new "Integrated Treasury System" was implemented in 2000-01. The development and implementation of the Phase II deliverables in 2001-02 will improve processes, accuracy, timeliness and efficiency.

An ongoing review of industry best practices regarding settlements and fiscal agency functions was initiated, and appropriate changes will be implemented.

Priorities for 2001-02

Cash Management

The division will continue to provide input into the Integrated Financial Information System (IFIS) project so that the OFA's cash management information needs are satisfactorily met by the new system and during the transition period.

Banking Services

The division will continue to work with ministries, Shared Services Bureau, ServiceOntario, Ontario Business Connects and the Electronic Commerce Task Force in designing and implementing cost-effective revenue collection and payment channels using new and existing banking services. Similarly, the OFA will promote the efficient use of electronic benefits cards where possible.

The division will issue tenders and evaluate and award the business for the Province's banking and cash management services, and for settlement and custodial services supporting the OFA's bond and money market activities.

As the banking industry adopts new technology, the OFA will pursue new banking technologies such as Internet-based products to ensure new efficiencies and cost savings. For example, working with the Ministry of Finance Taxation Division, implementation of a taxpayer e-file Internet banking method for Retail Sales Tax collection will be completed.

Finally, the division will provide banking advice supporting IFIS implementation over the next four years.

Capital Markets Treasury Division

Accounting and Settlement

The division will continue to stay abreast of accounting developments and ensure that the OFA is in the forefront with respect to financial reporting for the Province and the OEFC.

Ensure that the IFIS project is adequately supported so that the OFA can meet the IFIS implementation timetable and requirements.

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

Responsibilities

- ▲ Offer chequing/savings accounts, short-term deposits and guaranteed investment certificates to the public.
- ▲ Plan and execute the Ontario Savings Bond Campaign.

The mandate of the Province of Ontario Savings Office (POSO) is to supply financing to the Province while providing financial services to the public. POSO provides deposit-taking services to the public through a network of 23 branches and five agencies. Currently POSO has \$2.5 billion in deposits, ranging from demand deposits paying daily interest, to five-year guaranteed investment certificates. Deposits made at POSO offer depositors the same security as that provided to a holder of the Province's bonds.

2000-01 Accomplishments

The 2000 Ontario Savings Bond campaign raised \$3.4 billion and was the biggest provincial savings bond campaign in Canadian history.

In July 2000, POSO launched its own website to provide clients electronic access to POSO products.

Priorities for 2001-02

In his 2001 Budget Speech, the Honourable James Flaherty, Minister of Finance, announced that the Government would be seeking a buyer for the Province of Ontario Savings Office. POSO's sale will be overseen by the Ontario SuperBuild Corporation.

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's main source of revenue continues to be derived from the operations of the Province of Ontario Savings Office (POSO), which accepts deposits from the general public. The OFA operates POSO as an agent of the Minister of Finance and POSO deposits are direct liabilities of the Consolidated Revenue Fund.

Total funds on deposit with POSO as of March 31, 2001 were \$2.5 billion, representing a decrease of \$274 million from the \$2.8 billion reported as of March 31, 2000. The decrease is largely due to withdrawal of funds by Ontario Casino Corporation of \$410 million, offset by increased deposits by other government agencies of \$60 million. Public short-term and demand deposits increased by \$45 million, short-term GIC deposits increased by \$115 million, offset by decreased long-term GIC deposits of \$86 million.

The average effective rate of interest paid on all POSO deposits for the year ended March 31, 2001 decreased to 4.25 per cent from 4.28 per cent for the same period last year. The decrease is a reflection of the general fall in short-term interest rates compared to last year.

The net income for the year ended March 31, 2001 was \$11.2 million, an increase of \$2.3 million over the \$8.9 million reported for the same period last year. This is largely due to a net increase in interest earned of \$3.1 million, offset by a decrease in POSO miscellaneous revenue of \$700,000.

Salaries, wages and benefits totaling \$17.9 million represent an increase of \$1.3 million over last year due to filling of vacancies, severance pay for departed employees and salary revisions for senior management classifications.

Net capital assets as of March 31, 2001, were \$1.9 million, representing a balance as of March 31, 2000 of \$2.0 million plus purchases of \$875,000 and less amortization of \$977,000. Purchases pertained mainly to computer workstation and technology infrastructure upgrades required for specialized financial applications.

Retained earnings of \$67.1 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.

As agent 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 to the financial statements. They include loans made to the Metro Toronto Convention Center for expansion of its facilities, 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 Centennial Center of Science and Technology for the construction of OMNIMAX Theater.

The outstanding balance of these loans, including capitalized interest, as of March 31, 2001 was \$222 million. This is an increase of \$7 million from the \$215 million reported a year ago due to interest capitalization and further advances of \$1.5 million made to the City of Windsor for the construction of the Windsor Justice Facility offset by principal repayments of \$4.0 million and \$1.7 million made by the Metro Toronto Convention Center and the Ontario Northland Transportation Commission, respectively.

The OFA continued to provide investment management services to the Northern Ontario Heritage Fund Corporation, Ontario Trillium Foundation and the Ontario Securities Commission. As of March 31, 2001, the OFA managed investments of \$224 million, \$101 million, and \$20 million respectively on their behalf (March 31, 2000 - \$194 million, \$58 million and \$15 million respectively).

Summary of Financial Results

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. During the 2000-01 year, approximately \$487,000 of loans receivable from municipalities matured. 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.

Responsibility for Financial Reporting

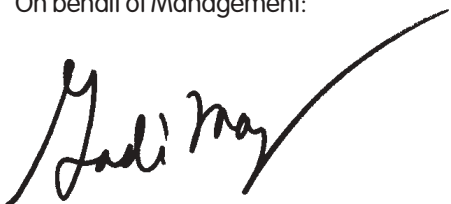
The accompanying financial statements of the Ontario Financing Authority have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's 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 15, 2001.

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 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:

A handwritten signature in black ink, appearing to read "Gadi Mayman", with a long, sweeping flourish extending to the right.

Gadi Mayman
CEO and Vice-Chair (Interim)
Ontario Financing Authority

Auditor's Report

Office of the
Provincial Auditor
of Ontario



Bureau du
vérificateur provincial
de l'Ontario

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B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax: (416) 327-9862

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, 2001 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, 2001 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 15, 2001

Erik Peters, FCA
Provincial Auditor

Balance Sheet

As at March 31, 2001

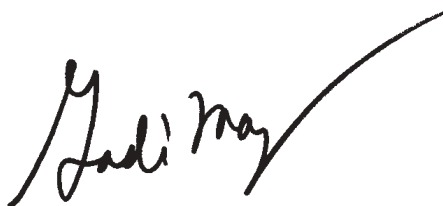
<i>(in thousands of dollars)</i>	Corporate	POSO	Total 2001	Total 2000
ASSETS				
Current assets				
Cash	\$ 129	13,444	13,573	\$ 22,734
Receivable from the Province of Ontario (note 2i)	314	2,139,791	2,140,105	2,307,436
Accounts receivable	3,857	42,944	46,801	40,634
Loans receivable (note 4)	301	—	301	326
Total current assets	\$ 4,601	2,196,179	2,200,780	\$ 2,371,130
Long-term assets				
Capital assets (note 3)	1,263	657	1,920	2,022
Receivable from the Province of Ontario (note 2ii)	—	446,194	446,194	532,885
Loans receivable (note 4)	79,043	—	79,043	79,505
Total assets	\$ 84,907	2,643,030	2,727,937	\$ 2,985,542
LIABILITIES AND RETAINED EARNINGS				
Current liabilities				
Accounts payable and accrued liabilities	\$ 5,021	38,758	43,779	\$ 37,644
Funds on deposit (note 2i)	—	2,091,494	2,091,494	2,279,288
Due to the Province of Ontario (note 4)	301	—	301	326
Total current liabilities	\$ 5,322	2,130,252	2,135,574	\$ 2,317,258
Long-term debt				
Funds on deposit (note 2ii)	—	446,194	446,194	532,885
Due to CPP and the Province of Ontario (note 4)	79,053	—	79,053	79,515
Total liabilities	\$ 84,375	2,576,446	2,660,821	\$ 2,929,658
Retained earnings	532	66,584	67,116	55,884
Total liabilities and retained earnings	\$ 84,907	2,643,030	2,727,937	\$ 2,985,542

See accompanying notes to financial statements.

Approved on behalf of the Board:



Bob Christie
Chair



Gadi Mayman
Vice-Chair and Chief Executive Officer (Interim)

Statement of Net Income and Retained Earnings

Year ended March 31, 2001

<i>(in thousands of dollars)</i>	Corporate	POSO	Total 2001	Total 2000
REVENUE				
Interest revenue	\$ 7,664	137,697	145,361	\$ 142,615
Cost recovery from the Province	11,494	—	11,494	10,392
Miscellaneous revenue	—	821	821	1,540
Total revenue	\$ 19,158	138,518	157,676	\$ 154,547
EXPENDITURES				
Interest on short-term debt	\$ —	89,560	89,560	\$ 81,824
Interest on long-term debt	7,656	24,147	31,803	39,868
Salaries, wages and benefits	8,747	9,144	17,891	16,620
Administrative and general	2,011	4,202	6,213	6,148
Amortization	736	241	977	1,166
Total expenditures	\$ 19,150	127,294	146,444	\$ 145,626
Net income for the period	\$ 8	11,224	11,232	\$ 8,921
Retained earnings, beginning of the period	524	55,360	55,884	46,963
Retained earnings, end of the period	\$ 532	66,584	67,116	\$ 55,884

See accompanying notes to financial statements.

Cash Flow Statement

Year ended March 31, 2001

<i>(in thousands of dollars)</i>	Corporate	POSO	Total 2001	Total 2000
Cash flows from operating activities				
Net income for the year	\$ 8	11,224	11,232	\$ 8,921
Adjustments to reconcile net income to funds provided by operating activities:				
Amortization	736	241	977	1,166
Net change in accounts receivable, payable and accrued liabilities	(184)	152	(32)	(1,478)
Cash flows from operating activities	\$ 560	11,617	12,177	\$ 8,609
Cash flows from financing activities				
Increase (decrease) in proceeds from depositors	\$ —	(274,485)	(274,485)	\$ 294,890
Repayments to the Province re: OMIC loans	(487)	—	(487)	(316)
Repayments from holders of OMIC loans	487	—	487	317
Cash flows used in financing activities	\$ —	(274,485)	(274,485)	\$ 294,891
Cash flows from investing activities				
Transfer of POSO funds from/ (to) the Province of Ontario	\$ —	254,022	254,022	\$ (324,975)
Purchase of capital assets	(552)	(323)	(875)	(783)
Cash flows from investing activities	\$ (552)	253,699	253,147	\$ (325,758)
Net increase(decrease) in cash	\$ 8	(9,169)	(9,161)	\$ (22,258)
Cash at beginning of the period	121	22,613	22,734	44,992
Cash at end of the period	\$ 129	13,444	13,573	\$ 22,734

See accompanying notes to financial statements.

Notes to Financial Statements for the year ended March 31, 2001

(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, 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*, 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. Amortization is not taken in the year of acquisition.

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

2. PROVINCE OF ONTARIO SAVINGS OFFICE

The OFA operates the Province of Ontario Savings Office (POSOS) as agent of the Minister of Finance. POSOS accepts deposits from the general public, government and other public bodies that form part of the Consolidated Revenue Fund and are direct liabilities of the Province. Administration costs for the period ended March 31, 2001 of \$992,066 (March 31, 2000 - \$1,062,670) relating to POSOS are provided by the Ministry of Finance and are not included in these financial statements. The average rate of interest paid to depositors and earned from the Province for the year ended March 31, 2001 was 4.25 per cent and 5.08 per cent respectively (March 31, 2000 was 4.28 per cent and 5.04 per cent respectively). These deposits are comprised as follows:

Summary of funds on deposit by general public and government agencies

	As at March 31, 2001			As at March 31, 2000		
	General Public	Government Agencies	Total	General Public	Government Agencies	Total
Short-term deposits	\$ 83,911	117,000	\$ 200,911	\$ 52,696	95,000	\$ 147,696
Demand deposits	1,044,268	89,490	1,133,758	1,031,337	459,125	1,490,462
GIC's maturing within one year	756,825	-	756,825	641,130	-	641,130
Total Short-term funds	\$ 1,885,004	206,490	\$ 2,091,494	\$ 1,725,163	554,125	\$ 2,279,288
Long-term funds	446,194	-	446,194	532,885	-	532,885
Total Funds on deposit	\$ 2,331,198	206,490	\$ 2,537,688	\$ 2,258,048	554,125	\$ 2,812,173

Notes to Financial Statements

(i) Receivable from the Province of Ontario and short-term funds on deposit

The total current 'Receivable from the Province' of \$2,140,105 (March 31, 2000 - \$2,307,436) includes short-term funds on deposit plus working capital, mainly of POSO.

(ii) Receivable from the Province of Ontario and long-term funds on deposit

The long-term 'Receivable from the Province' represents deposits for which POSO has issued long-term GICs. These deposits mature as follows:

Year ended March 31	As at March 31, 2001		As at March 31, 2000	
	Principal Maturing	Effective Average Interest Rate (%)	Principal Maturing	Effective Average Interest Rate (%)
2002	\$ —		\$ 250,290	5.71
2003	212,708	5.65	135,447	5.56
2004	87,599	5.53	55,984	5.35
2005	99,072	5.95	91,164	5.90
2006	46,815	5.92	—	
Total	\$ 446,194		\$ 532,885	

3. CAPITAL ASSETS

The balance of capital assets, net of amortization, is as follows (amortization begins in the year following acquisition):

	Cost	Accumulated Amortization	Net March 31, 2001	Net March 31, 2000
Furniture and equipment	\$ 1,190	\$ (1,072)	\$ 118	\$ 134
Computer hardware	5,518	(3,912)	1,606	1,688
Leasehold improvement	1,252	(1,056)	196	200
	\$ 7,960	\$ (6,040)	\$ 1,920	\$ 2,022

4. 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.

Notes to Financial Statements

As of March 31, 2001, the portion of long-term debt maturing in 2001-02 is \$301,000 (March 31, 2000 - \$326,000 maturing in 2000-01) and is due to the Province. Long-term debt (maturing in the year ended March 31, 2003 and future) is composed of debt due to the Province of \$32,000 and to the Canada Pension Plan of \$79 million (March 31, 2000 - \$494,000 and \$79 million respectively, maturing in year ended March 31, 2002 and future). The terms of the outstanding debt are as follows:

Year ended March 31	As at March 31, 2001		As at March 31, 2000	
	Principal Maturing	Effective Average Interest Rate (%)	Principal Maturing	Effective Average Interest Rate (%)
2001	\$ —		\$ 326	13.58
2002	301	13.95	354	13.59
2003	5	11.25	64	11.55
2004	5	11.25	54	11.55
2005	6	11.25	6	11.25
2006	6	11.25	—	
1 - 5 years	\$ 323		\$ 804	
6 - 20 years	79,031	9.61	79,037	9.61
Total	\$ 79,354		\$ 79,841	

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, 2001, \$222 million (March 31, 2000 - \$215 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, 2001, these interest rates ranged from 4.50 per cent to 5.60 per cent (March 31, 2000 from 4.98 per cent to 5.48 per cent). It is the OFA's intention to replace these promissory notes with term debt, at which point repayment terms will be finalized.

Prior to March 31, 2001, the original amounts of promissory notes converted into debentures were as follows: Ontario Northland Transportation Commission - \$3.9 million at 5.64 per cent maturing April 1, 2008, \$12.7 million at 6.37 per cent maturing August 1, 2014, \$19 million at 5.6 per cent maturing December 1, 2014; City of Windsor - \$26.4 million at 6.41 per cent maturing March 31, 2021.

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

Notes to Financial Statements

	March 31, 2001	March 31, 2000
Metro Toronto Convention Centre	\$ 161,726	\$ 156,583
Ontario Northland Transportation Commission	32,977	34,717
Corporation of the City of Windsor	26,416	23,450
Centennial Centre of Science and Technology	608	607
	\$ 221,727	\$ 215,357

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 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.

(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 of March 31, 2001, consist of \$224 million held on behalf of the Northern Ontario Heritage Fund Corporation (March 31, 2000 - \$194 million), \$101 million held on behalf of Ontario Trillium Foundation (March 31, 2000 - \$58 million) and \$20 million held on behalf of Ontario Securities Commission (March 31, 2000 - \$15 million). The OFA also manages debt on behalf of the Province and was reimbursed \$11.5 million for the year ended March 31, 2001 for these activities (March 31, 2000 - \$10.4 million).

(iii) Province of Ontario Savings Office: Other related parties have deposited their funds on a short-term basis. Total amounts deposited as at March 31, 2001 were \$206 million (March 31, 2000 - \$554 million).

6. PENSION PLAN

The OFA provides pension benefits for its employees through participation in the Public Service Pension Plan. The OFA's pension contributions for the period ended March 31, 2001 were \$733,000 (March 31, 2000 - \$875,000).

7. FINANCIAL INSTRUMENTS

The carrying amounts for cash, accounts receivable, receivable from the Province of Ontario, accounts payable and accrued liabilities and short-term funds on deposit 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.

Notes to Financial Statements

8. CONTINGENCIES

The Province of Ontario Savings Office is from time to time involved in various legal proceedings arising out of the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

9. SUBSEQUENT EVENTS

In the May 9, 2001 Budget, the Ministry of Finance announced that the Government is proposing to sell the Province of Ontario Savings Office by soliciting offers through the Ontario SuperBuild Corporation.

10. SALARIES (absolute dollars)

The *Public Sector Salary Disclosure Act, 1996*, requires disclosure of Ontario public-sector employees paid an annual remuneration in excess of \$100,000. The amounts paid in 2000 to individuals listed below, who are identified with an asterisk (*), include salary and performance-based pay.

Name	Position	Remuneration Paid	Taxable Benefits
Charles Allain	Director - Debt Management	\$ 154,460*	\$ 354
Kanak Chopra	Director - Risk Control	\$ 179,861*	\$ 445
James Devine	Manager - Fixed Income & Medium-Term Notes	\$ 148,857*	\$ 345
Andrew Hainsworth	Manager - Funding	\$ 151,178*	\$ 345
Douglas Harrington	Financial Engineer	\$ 104,260*	\$ 331
Michael Manning	Executive Director - Capital Markets	\$ 224,770*	\$ 483
Gadi Mayman	CEO & Vice Chair, OFA	\$ 234,781*	\$ 539
Christine Moszynski	Director - Capital Markets Treasury	\$ 117,308*	\$ 293
David Peters	Manager - Derivatives	\$ 149,980*	\$ 345
William Ralph	Director - Corporate Finance	\$ 137,958*	\$ 312
Ken Russell	Legal Counsel	\$ 104,410	\$ 299
Tony Salerno	ADM - Office of Treasury/CEO - Vice Chair, OFA	\$ 388,601*	\$ 5,784
Corey Simpson	Legal Counsel	\$ 115,379	\$ 330

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 officers, the Board of Directors and the Minister of Finance. Corporate governance also includes identifying those individuals and groups who 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 the OFA and the Minister of Finance. Together, they provide that the Minister of Finance is accountable to the Lieutenant Governor in Council for the activities of the OFA. The Chief Executive Officer 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, approves and recommends to the Management Board of Cabinet the annual Corporate Plan, which contains long-and short-term objectives and reports on accomplishments for the preceding year.

The Chief Executive Officer (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 Ontario Financing Authority 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	
<ul style="list-style-type: none"> ▲ Reviews and approves key risk management policies. ▲ Supervises the management of the Province's debt and investment portfolio. <p>Audit Committee:</p> <ul style="list-style-type: none"> ▲ 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	
<p>Risk Management Committee</p> <ul style="list-style-type: none"> ▲ Reviews daily market updates and outlook. ▲ Reviews current borrowing, investing and debt management positions and strategies. 	<p>Borrowing Strategy Committee</p> <ul style="list-style-type: none"> ▲ 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 operational limits and procedures related to financial operations. ▲ Approves exceptions to approved risk management policies. ▲ Approves risk management policies for recommendation to the Board of Directors.
Risk Control Division	
<ul style="list-style-type: none"> ▲ Monitors and measures financial risks and performance associated with borrowing, debt management and investment of liquid reserves. ▲ Develops risk management policies 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. 	

Corporate Policies

Risk Management Policy Framework

The Ontario Financing Authority has a number of policies in place to minimize financial risk: market risk, credit risk, operational risk and risks related to the use of derivatives. These policies were developed after reviewing the Group of Thirty's best practices, the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada, and consulting with Canadian bank representatives on their risk management practices. Key aspects of the policies are summarized below.

A. Market Risk

This policy provides a framework for borrowing and debt management activities and contains measures for managing market risk.

- ▲ **Foreign Currency 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 the 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. The trigger level is included in the annual borrowing and risk management plan.
- ▲ **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.
- ▲ **Risk Measurement** - The Province identifies and quantifies exposures to market risk in its annual borrowing and debt management plans to ensure that risk exposures and losses remain within the approved exposure and loss limits. Exposure to market, credit and liquidity risk is measured daily.
- ▲ **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.

Corporate Policies

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- 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 Ontario Financing Authority 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 by supervising the computing environment, establishing backup power sources, regular data backups, off-site storage, and fire walls to protect against unauthorized intruders, and scanning for computer viruses.

D. 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 borrowing and debt management plans. Risks that arise from the use of derivatives are identified, monitored, evaluated and managed prudently.

Corporate Policies

Financial Reporting

The Ontario Financing Authority'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 quarterly and annual financial statements in accordance with Generally Accepted Accounting Principles (GAAP) for approval by the Audit Committee and the Board of Directors. 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 Ontario Financing Authority's Annual Report.

APPENDIX

Summary of Net Provincial Debt



Credit Ratings



Exchanges Where the Province is Listed



Sources of Information

Summary of Net Provincial Debt

NET PROVINCIAL DEBT

Interim 2001⁽¹⁾

(\$ Millions)

	1997	1998	1999	2000	Interim 2001	Plan 2002
Debt Issued for Provincial Purposes ⁽²⁾						
Non-Public Debt						
Minister of Finance of Canada:						
Canada Pension Plan Investment Fund	\$ 12,209	\$ 11,358	\$ 10,487	\$ 10,369	\$ 10,442	\$ 10,800
Ontario Teachers' Pension Fund	14,049	13,822	13,213	12,252	11,535	11,043
Ontario Municipal Employees Retirement Fund (OMERS)	722	697	666	622	569	502
Colleges of Applied Arts and Technology Pension Plan	91	91	89	86	81	73
Ryerson Retirement Pension Plan	9	9	8	8	7	6
Canada Mortgage and Housing Corporation	1,272	1,246	1,208	1,181	1,147	1,111
Public Service Pension Fund	3,790	3,681	3,604	3,535	3,446	3,331
Ontario Public Service Employees' Union Pension Fund (OPSEU)	1,772	1,749	1,712	1,679	1,637	1,582
	<u>\$ 33,914</u>	<u>\$ 32,653</u>	<u>\$ 30,987</u>	<u>\$ 29,732</u>	<u>\$ 28,864</u>	<u>\$ 28,448</u>
Publicly Held Debt						
Debentures and Bonds ⁽³⁾	\$ 61,939	\$ 68,199	\$ 72,464	\$ 72,549	\$ 73,278	\$ 73,196
Treasury Bills	2,071	675	950	3,002	2,680	2,680
U.S. Commercial Paper ⁽³⁾	—	—	272	396	523	523
Other	468	455	460	458	447	446
	<u>\$ 64,478</u>	<u>\$ 69,329</u>	<u>\$ 74,146</u>	<u>\$ 76,405</u>	<u>\$ 76,928</u>	<u>\$ 76,845</u>
Total Debt Issued for Provincial Purposes	\$ 98,392	\$ 101,982	\$ 105,133	\$ 106,137	\$ 105,792	\$ 105,293
Debt Issued for Investment in Electricity Sector ⁽⁴⁾	—	—	—	\$ 8,885	\$ 8,885	\$ 8,885
Deposits with Province of Ontario Savings Office	\$ 2,135	\$ 2,245	\$ 2,517	\$ 2,812	\$ 2,487	\$ 2,500
Other Liabilities ⁽⁵⁾	\$ 20,938	\$ 21,995	\$ 19,237	\$ 19,403	\$ 16,549	\$ 17,264
Total Liabilities:	\$ 121,465	\$ 126,222	\$ 126,887	\$ 137,237	\$ 133,713	\$ 133,942
Less: Financial Assets ⁽⁶⁾	\$ (12,696)	\$ (13,487)	\$ (12,150)	\$ (23,522)	\$ (22,988)	\$ (23,217)
Net Provincial Debt	\$ 108,769	\$ 112,735	\$ 114,737	\$ 113,715 ⁽⁷⁾	\$ 110,725	\$ 110,725

Source: Ontario Ministry of Finance.

(1) Prepared on the basis of modified accrual and consolidation accounting.

(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) Other Liabilities includes Accounts Payable, Accrued Liabilities, and Pensions.

(6) Financial Assets comprise Cash and Temporary Investments, Accounts Receivable and Investment in Government Enterprises (including \$8,885 million of investment in Electricity Sector).

(7) For more information on Net Provincial Debt (Accumulated Deficit), please see 1999-2000 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 "+" or "-" (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)	Aa3, Positive Outlook
Dominion Bond Rating Service (Toronto)	AA (low), Positive Outlook

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)

Exchanges Where the Province is Listed

The Luxembourg Stock Exchange
The London Stock Exchange
The Stock Exchange of Hong Kong
The Stock Exchange of Singapore
The Frankfurt Stock Exchange
The Paris Bourse
The Stock Exchange of Zurich
The Amsterdam Stock Exchange

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 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 (Fall Statement)

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

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.

Form 18-k

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

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