

Annual Report

| O | N | T | A | R | I | O |

Financing Authority

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

- ♦ co-ordinates borrowing and financial risk-management activities;
- ♦ offers short-term investment management services; and
- ♦ advises on alternative approaches to infrastructure finance.

The Authority also operates the Province of Ontario Savings Office, which offers deposit-taking services to the public. Funds are invested with the Province.

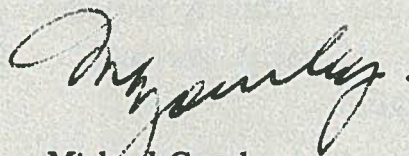
Finally, the Authority provides centralized finance and cash-management services to Ontario Government organizations.

As an agency of the Province, the Authority reports to the Minister of Finance through the Chair of the Board of Directors.

Message from the Chair

I am pleased to present the 1994-95 Annual Report of the Ontario Financing Authority, for the period of April 1, 1994 to March 31, 1995. The Report outlines the achievements, operational highlights and financial results of the Authority.

Appointed as Chair of the Ontario Financing Authority on July 21, 1995, I look forward to working with the other Board members, senior management and staff of the Authority as it provides the Province and other public agencies with a variety of financial services and expertise.



Michael Gourley
Chair
Ontario Financing Authority

Message from the Vice-Chair and CEO

The Annual Report presents the operational results for 1994-95 as well as the Authority's audited financial statements.

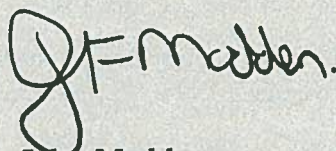
The Authority was able to finance selectively in domestic and foreign markets throughout 1994-95 by entering the year prefunded in relation to provincial requirements (\$11.2 billion). Though market conditions were generally difficult, the Authority achieved solid reception for its issues by matching size to investor demand. At the same time, the Authority made greater use of the Province's Medium Term Note (MTN) program and private placements. As a result of these actions, provincial financing requirements were completed ahead of fiscal year-end.

On matters related to capital finance, the Authority worked with the Crown corporations that were set up to build and manage infrastructure. In particular, the Authority advised on new financing approaches considered for major projects, such as Highway 407 (a new toll highway planned for north of Toronto).

Other initiatives introduced in 1994-95 included:

- ♦ developing new financial products and services for customers of the Province of Ontario Savings Office; and
- ♦ expanding banking and cash-management services (such as the expanded use of direct deposit) for government programs.

In closing, I would like to acknowledge the role played by staff in successfully implementing the 1994-95 financing program and other operational initiatives.



John Madden
Vice-Chair & Chief Executive Officer

Management's Discussion and Analysis

Capital Market Activities

Market Retrospective

While 1994 saw healthy economic expansion in North America and steady – but more modest – growth in other G-7 countries, the upturn in the economy was matched by a characteristic downturn in the bond markets.

Several international events also contributed to a difficult year for world bond markets. The tightening of monetary policy by the U.S. Federal Reserve Board, begun in the previous year, continued in 1994–95. In response to the expectation of further increases in short rates, long rates rose, thus lowering total bond returns. Interest rates and bond returns outside the United States followed suit, as European economic growth exceeded expectations.

European and Asian investors were further affected by exchange rate movements. Despite higher interest rates, the U.S. dollar continued its downward trend relative to the Yen and Deutschmark (DM), contrary to market expectations. Devaluation of the Mexican peso raised concerns of financial instability in some emerging markets.

At the same time, concerns about the sustainability of fiscal policy or about political events in many countries kept investors nervous about exposure to foreign currencies. Investors subsequently remained in their home markets. In particular, Japanese investors continued to focus on yen-denominated investments. For instance, as their foreign exchange exposure was minimized, Japanese investors bought sizable amounts of yen-denominated bonds from several Canadian provinces.

Responding to these economic and market factors was key to the success of the Province's 1994–95 financing program.

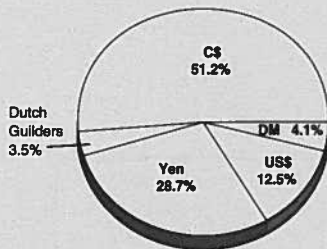
Chart 1
1994-95 Financing
Program by Instrument

Converted into C\$ billion



\$5.1 billion of the financing program was completed in the domestic public market.

Chart 2
1994-95 Financing
Program, by Currency



1994-95 Financing Program

The size of the financing program is determined by the aggregate needs of the Authority's clients plus the refinancing of matured debt of the Province of Ontario. During the fiscal year ending March 31, 1995, the Authority borrowed a total of \$11.2 billion.

Pre-borrowing continued to be an important aspect of the Authority's financing strategy. Faced with a heavy borrowing schedule as well as tough markets, the practice of pre-borrowing funds provided the Authority with the flexibility to price and time issuance to its advantage. In the absence of such a practice, an entity, such as the Province, with large known requirements may experience higher costs as markets raise the price of financing.

A key objective of the financing program is to maintain moderate issuance spreads – the difference between the yield sought by investors on a given Ontario bond issue and the yield on the relevant benchmark bond (such as U.S. or Canadian Government bonds). To meet this goal in prevailing markets, the Authority reduced the average size of its public issues, from \$2 billion in the previous two fiscal years, to an average of \$750 million per issue in 1994-95. These smaller issues were placed quickly into target markets. The action of adapting issue size to meet investor demand was a factor contributing to Ontario's stable issuance spreads in the period immediately after each issue, and the narrowing of these spreads over the course of the year.

Another aspect of the financing strategy was to increase the use of the Medium Term Note (MTN) and private placement programs. MTNs are debt instruments that can be offered continuously under a specific program, and are structured to meet individual investor needs. Private placements are debt issues that are offered to a single or a few investor(s) as opposed to being offered publicly. MTN and private placements proved to be effective in 1994-95, accounting for almost 30% of financing. There were 27 MTN/private placements issued, compared to four in 1993-94. Generally smaller than public market issues, with an average size of \$100 million, MTNs provided cost-effective financing.

Debt Portfolio

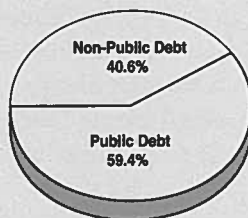
Converted into C\$ (billions)

Chart 3
By Currency



Roughly two-thirds of the Province's total debt is held in Canadian dollars.

Chart 4
By Liability



The Province's non-public debt is that held largely by public-sector pension funds.

Ontario also expanded its retail base. For the first time, Ontario offered savings bonds to its residents. Launched in February 1995, the issue raised \$1.6 billion.

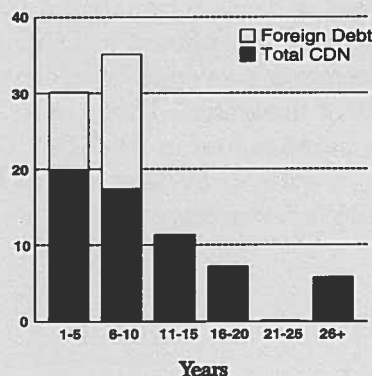
The remainder of the borrowing program was diversified. By financing in five different currencies and many international capital markets (see chart 2), the Authority was able to obtain funds in a cost-effective manner.

While the change in investor preference away from North American currencies was a negative factor for many issuers, it created opportunities for those issuers based domestically. Domestic investors were receptive to an increase in Canadian dollar issuance by the Authority. Domestic market borrowings – public issues, MTNs, private placements and Ontario Savings Bonds – accounted for more than half of all borrowing (see Chart 2). This was the highest proportion of borrowing completed in the domestic market since fiscal 1991-92. This funding was attained at cost-effective rates.

Supporting its financing activities is the Authority's investor relations program. The program gathers business intelligence that aids in the design of financing strategies and allows the Authority to respond to investor needs.

Chart 5
Debt Maturity Schedule

C\$ billions



At year-end, the total debt portfolio under administration was \$86.9 billion (excluding POSO and other liabilities of \$2.7 billion).

The average term of the Province's debt was nine years.

Definitions of Risk

Currency Risk: the risk of increased debt servicing costs due to movement of the Canadian dollar.

Interest Rate Risk: the risk of increased debt servicing costs due to movements in interest rates.

Liquidity Risk: the risk of having insufficient cash to meet financial commitments.

Refinancing Risk: the risk of replacing maturing debt with new debt at a higher cost.

Credit Risk: the risk of financial loss due to failure of a counterparty.

Derivative: a contract whose value is derived from the value of an underlying asset, liability, reference rate or index.

Risk Management

The Authority seeks to raise capital in a cost-effective manner for its clients. Achieving this goal in light of sizable requirements has meant providing product variety and accessing both domestic and foreign markets. While key to the overall success of the financing program, participation in the world's capital markets brings with it certain risks. Recognizing the inherent presence of risk, the Authority has put in place specific policies and strict procedures to limit risk exposure. As a government agency, the Authority maintains a risk-averse orientation. Risk-management policies are approved at least annually by the Minister and Deputy Minister of Finance.

For example, the Authority's currency risk policy restricted foreign exchange exposure to 2% of total debt in 1994-95. However, currency risk exposure was minimized by the practice of fully hedging foreign currency positions. Indeed, less than 0.03% of total debt was unhedged.

The Authority continued the interest rate policy of allowing floating rate debt to reach a maximum of 15% of total debt. In 1994-95, the Authority increased the percentage of floating rate debt during the last half of the fiscal year to 11.8% from 8.8%. Furthermore, by holding to a practice where 88.8% of Ontario's total debt remained fixed, public finances were safeguarded in the event of sudden interest rate shocks.

The Authority uses cash and derivative products to hedge exposure to currency and interest rate risks. By bringing the government's foreign currency borrowing back to Canadian dollars, the Province is protected from foreign exchange fluctuations. Where beneficial, transactions can be executed to separate the timing of borrowing from the rate-setting process. As a result, the Authority was able to access receptive markets while selecting advantageous times to set rates. Moreover, by planning the timing of risk-management activities, the Authority's ability to manage costs and cash-flow needs was enhanced. An aspect of the risk-management strategy also involved greater use of the Canadian-dollar market.

Effective protection against currency and interest rate movements requires the active management of a combination of the following capital market tools: Government of Canada and U.S. Treasury bond transactions, interest rate and currency swap agreements, repurchase agreements and futures contracts.

At March 31, 1995, the total swap portfolio had a notional value of \$56 billion. The absolute volume of transactions during the course of 1994-95 totalled \$58 billion in bonds, \$28 billion in futures contracts and \$19 billion in forward rate agreements. To mitigate credit risk, the Authority requires its swap counterparties to have a single A or greater rating. In fact, 98% of the nominal swaps outstanding are with counterparties including the major Canadian banks and international financial institutions that hold an "AA-" or higher rating. Credit exposures are monitored daily to ensure compliance to credit limits.

The Authority uses a number of practices to manage liquidity risk. Pre-borrowing was undertaken as opportunities arose. In addition, the Authority concluded negotiations for U.S.\$4 billion in syndicated bank lines of credit on behalf of the Province, involving 48 banks worldwide. Liquidity risk was also managed by replacing \$1.2 billion of short-term debt with longer-term MTNs.

On an operational basis, risk management is supported by a well-developed infrastructure. Using sophisticated information systems, experienced staff monitor and assess economic and interest rate forecasts, currency movements, market spreads and counterparty credit status on an ongoing basis. Senior management is updated weekly on these activities or more frequently if required. As a final check, the CEO meets daily with Divisional Directors engaged in risk-management and control activities.

Management Reporting

To enhance financial and risk-management information, reports on the Authority's hedging activities, valuation of liability hedging portfolio, effective cost of funding and counterparty credit exposure were produced on a regular basis during the fiscal year of 1994-95.

Towards the end of the fiscal year, the Authority also initiated a process to establish a separate management control and reporting section to strengthen management reporting with a clear focus on risk monitoring and control. The section will be responsible for identifying and quantifying risks on the Authority's swaps and other hedging positions.

In addition, reporting on cash, accounting, settlement and banking activities has been enhanced by the implementation of an integrated accounting and settlement system. This has resulted in more timely data for cash management purposes and allowed staff to handle increased volume of transactions related to debt, investments and derivative instruments.

Investment Portfolio

At year-end, the Authority managed a liquid reserve portfolio of \$8.2 billion. The portfolio included 40% in Government of Canada treasury bills, and 32% in bankers' acceptances, bank deposit and term notes issued by major Canadian banks. The remaining 28% includes provincial T-bills, U.S. T-bills, Government of Canada bonds, and highly rated (i.e., those rated R1 middle or better by Dominion Bond Rating Service) non-government securities, such as corporate commercial paper.

Corporate Finance

The Authority's role is to provide the expertise needed to:

- ♦ assess financing options for specific projects;
- ♦ develop a longer-term strategic approach for capital infrastructure financing; and
- ♦ ensure consistency with the Province's overall financing objectives.

Specific objectives are to attain low-cost financing and to make the best use of the Province's borrowing capacity. This can be accomplished by pursuing structured financing for projects that can be financed by the private sector or that can generate external revenues to support project debt. Clients include the Ontario Transportation Capital Corporation (OTCC), Ontario Realty Corporation (ORC), Ontario Clean Water Agency (OCWA) and other public-sector agencies.

On a project-specific basis, the Authority participated in several diverse initiatives with clients. For example, the Authority assisted the OTCC to develop a financing structure for the construction, operation and maintenance of Highway 407, a major new toll highway north of Toronto.

Another area where the Authority provided expertise was in undertaking research on credit issues associated with self-supporting debt and new financing approaches, such as revenue bonds. An example of the Authority's role in supporting the development of strategic plans was the work accomplished with OCWA to prepare its financing strategy for water and sewage works in Ontario.

Financial Management Services

Several initiatives, implemented in the past year, have enhanced the financial services provided to other public bodies, such as the following:

- ◆ In a move facilitated by the Authority, a number of Ontario Government ministries and certain Crown corporations, such as the Liquor Control Board of Ontario (LCBO), now accept credit and debit (bank) cards.
- ◆ Electronic funds transfer are used for a wider range of payments to suppliers and clients, including recipients of family benefits allowances.
- ◆ Banking activities of the Authority and Crown corporations are managed on a combined basis to maximize use of cash balances.

As a result:

- ◆ cash balances have increased because of more timely receipts of cash, the consolidation of cash balances across the government and increased volume of sales; and
- ◆ service to the public has improved.

It is estimated that the combined impact of these measures totalled \$4.2 million consisting, in part, of savings for the Province and increased revenues for the LCBO.

Province of Ontario Savings Office (Savings Office)

The Savings Office provides deposit-taking services to the public through a network of 23 branches and five agencies. In 1994-95, it offered its depositors two savings instruments – a daily interest savings/chequing account and one- to five-year Guaranteed Investment Certificates (GICs). The funds on deposit are then loaned to the Province. At year end, these deposits totalled \$2.1 billion.

In May 1995, the Savings Office implemented 30- to 364-day short-term deposits. The addition of this new product allows customers to choose any term from demand to five years for their savings.

The mandate of the Savings Office, since its inception, has been to offer deposits to the public at competitive interest rates while at the same time supplying cost-effective funding to the Province. Both aspects of this mandate have been achieved by developing a high level of customer satisfaction while being very conscious of costs.

Summary of Financial Results

Summary of Financial Results

The year ended March 31, 1995 represents the first full year of operations for the Ontario Financing Authority, as compared to four and one-half months in the period ended March 31, 1994. *For purposes of this analysis, all comparisons to the prior period are presented on an estimated annualized basis for ease of illustration. This analysis should be read in conjunction with the financial statements.*

Currently, the Authority's main source of revenue is derived from its Province of Ontario Savings Office operations, which accepts deposits from the general public and lends the funds to the Province. Total funds on deposit increased by approximately \$54 million in the year ended March 31, 1995. This is composed of a decrease in demand and current GIC deposits of \$42 million and an offsetting increase of \$96 million in long-term GIC deposits. The receivable from the Province increased by a comparable amount.

Interest paid on total deposits increased to an average of 5.35% in the year ended March 31, 1995, from an average of 3.84% for the period ended March 31, 1994, reflecting changes in the capital markets. The increase in rates accounts for the increase of approximately \$32 million in interest expense in the current year over the prior period. Interest earned by Savings Office operations in the year ended March 31, 1995 increased by approximately \$36 million over the prior period. Miscellaneous revenue increased by about \$400,000 due mainly to commissions earned on the sales of Ontario Savings Bonds and Canada Savings Bonds by the Savings Office.

Fixed assets were purchased for the first time by the Authority in 1994-95. The leasehold improvements and furniture and equipment expenditures related primarily to the refurbishing of various Savings Office branches. Approximately \$900,000 was spent on upgrades to computer hardware in the Authority to maintain equipment and systems at a standard necessary for the effective support of the financing, risk- and cash-management and other activities. Note 3 to the financial statements provides a breakdown by asset grouping.

This past year, salaries, wages and benefits expense incurred by the Authority decreased by approximately \$650,000 over the prior period, on an annualized basis. The decline is due to a pension benefits "holiday" resulting from the most recent pension valuation, dated December 31, 1993. Administrative and general expenses decreased by approximately 3% over the prior period.

During 1994-95, the Authority provided investment management services to the Ontario Clean Water Agency, managing funds in the range of \$25 to \$35 million on their behalf.

The Authority continues to be responsible for the administration and collection of loans of the former Ontario Municipal Improvement Corporation (OMIC). OMIC's assets of \$82.4 million consist of debentures receivable from various municipalities and an equal amount of liabilities payable mainly to the Canada Pension Plan and the Province. Approximately \$1.4 million of loans receivable from municipalities matured in the year, with a corresponding amount of related debt repaid by the Authority. Interest earned and paid on these loans amounted to about \$8 million.

The Authority continues to act as a financial intermediary between the Province and the USH sector (universities, colleges, school boards and hospitals); capital corporations; and others as described in note 5 to the financial statements.

Financial Statements and Notes to Financial Statements

Audited Financial Statements

Responsibility for Financial Reporting

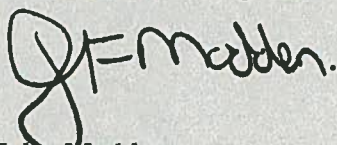
The accompanying financial statements of the Ontario Financing Authority have been prepared in accordance with accounting principles generally accepted in Canada and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to May 26, 1995.

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 external auditors to satisfy itself that each group has properly discharged its respective responsibility, and to review the financial statements before recommending approval by the Board of Directors.

The financial statements have been examined 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:



John Madden
Vice-Chair and Chief Executive Officer

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, 1995 and the statements of net income and retained earnings and changes in financial position 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 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, 1995 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles.

A handwritten signature in black ink, appearing to read "Erik Peters".

Toronto, Ontario
May 26, 1995

Erik Peters, FCA
Provincial Auditor

Balance Sheet

(in thousands of dollars)

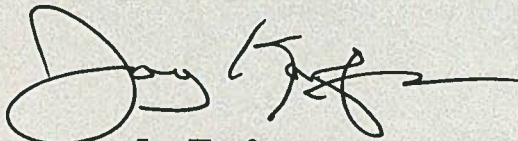
	As at March 31, 1995	As at March 31, 1994
Assets		
Current assets		
Cash	\$ 16,792	\$ 14,567
Accounts receivable	35,125	26,882
Receivable from the Province of Ontario(note 2)	2,109,179	2,045,698
Total current assets	\$ 2,161,096	\$ 2,087,147
Fixed assets	2,783	—
Loans receivable	82,409	83,842
Total assets	\$ 2,246,288	\$ 2,170,989

Liabilities and Retained Earnings

Current liabilities		
Accounts payable and accrued liabilities	\$ 36,437	\$ 27,056
Short-term notes payable to the Province(note 5) ...	500	500
Current portion of long-term debt	1,017	1,450
Funds on deposit	1,595,578	1,637,884
Total current liabilities	\$ 1,633,532	\$ 1,666,890
Long-term debt		
Due to the Province of Ontario	2,381	3,388
Due to the Canada Pension Plan	79,021	79,021
Funds on deposit	518,206	421,690
Total liabilities	\$ 2,233,140	\$ 2,170,989
Retained earnings	13,148	—
Total liabilities and retained earnings	\$ 2,246,288	\$ 2,170,989

Please see accompanying notes to financial statements

Approved on behalf of the Board:



Jay Kaufman
Chair



John Madden
Vice-Chair & CEO

Statement of Net Income and Retained Earnings

<i>(in thousands of dollars)</i>	For the year ended March 31, 1995	For the period from November 15, 1993 to March 31, 1994
Revenue		
Interest revenue	\$ 144,175	\$ 40,625
Cost recovery from the Province	8,303	—
Miscellaneous revenue	1,536	418
Total revenues	\$ 154,014	\$ 41,043
Expenditures		
Interest on short-term debt	\$ 79,636	\$ 19,966
Interest on long-term debt	40,476	12,951
Salaries, wages and benefits	13,148	5,173
Administrative and general	7,606	2,953
Total expenditures	\$ 140,866	\$ 41,043
Net income for the period	\$ 13,148	\$ —
Retained earnings, beginning of period	—	—
Retained earnings, end of period	\$ 13,148	\$ —

Please see accompanying notes to financial statements

Statement of Changes in Financial Position

<i>(in thousands of dollars)</i>	For the year ended March 31, 1995	For the period from November 15, 1993 to March 31, 1994
Cash provided by (used in):		
Operating activities		
Net income for the period	\$ 13,148	\$ —
Adjustments to cash provided by operating activities: ...		
Increase in accounts payable and accrued liabilities	9,381	27,056
Increase in accounts receivable	(8,243)	(26,882)
Net income adjusted for non-cash items	<u>\$ 14,286</u>	<u>\$ 174</u>
Funds provided by operating activities	<u>\$ 14,286</u>	<u>\$ 174</u>
Financing activities		
Increase in funds on deposit	\$ 54,210	\$ 2,059,574
Increase (decrease) in indebtedness	<u>(1,440)</u>	<u>84,359</u>
Funds provided by financing activities	<u>\$ 52,770</u>	<u>\$ 2,143,933</u>
Investing activities		
Increase in receivable from the Province of Ontario	\$ (63,481)	\$(2,045,698)
(Increase) decrease in loans receivable	1,433	(83,842)
Purchase of fixed assets	<u>(2,783)</u>	<u>—</u>
Funds used in investing activities	<u>\$ (64,831)</u>	<u>\$(2,129,540)</u>
Net increase in cash during the period	\$ 2,225	\$ 14,567
Cash at beginning of period	<u>14,567</u>	<u>—</u>
Cash at end of period	<u>\$ 16,792</u>	<u>\$ 14,567</u>

Please see accompanying notes to financial statements

Notes to Financial Statements

(all tables are in thousands of dollars)

Background

The Ontario Financing Authority (the "Authority") was established as an agency of the Crown, on November 15, 1993, under the authority of the Capital Investment Plan Act, 1993 (the "Act"). In accordance with the Act, the Authority'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;
- ♦ 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.

In accordance with the provisions of the Act, the Authority is incorporated under the laws of Ontario. The Authority is exempt from federal and provincial income taxes under section 149(1)(d) of the Income Tax Act of Canada.

Note 1: Significant Accounting Policies

(i) General

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

(ii) Fixed assets

Fixed assets are stated at cost. Depreciation is provided using the straight-line method over the estimated useful life of the asset as listed below. Depreciation is not taken in the year of acquisition.

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

Note 2: Province of Ontario Savings Office

The Authority operates the Province of Ontario Savings Office ("Savings Office"). The Savings Office accepts deposits from the general public, which in turn are deposited with the Consolidated Revenue Fund of the Province.

At March 31, 1995, funds on deposit amounted to \$2.1 billion (March 31, 1994 – \$2.05 billion), composed of short-term deposits of \$1.6 billion and long-term

deposits of \$0.5 billion. The average rate of interest paid to depositors for the year was 5.35% (period ended March 31, 1994 – 3.84%).

Long-term funds on deposit with the Savings Office (guaranteed investment certificates) at March 31, 1995 are as follows:

Year ended March 31	Principal Maturing	Effective Interest Rate (%)
1997	\$218,938	7.87
1998	121,048	7.48
1999	70,134	6.75
2000	108,086	8.31
Total	<u>\$518,206</u>	

Note: 3 Fixed assets

Fixed assets were acquired for the first time in 1995. The balance of fixed assets by major grouping is as follows:

Furniture and equipment	\$ 895
Computer hardware	942
Leasehold improvements	946
	<u>\$ 2,783</u>

Note: 4 Ontario Municipal Improvement Corporation

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 Authority on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) and the Province that it used to make loans to municipalities and school boards under the same terms as its debt.

The terms of the long-term debt due to CPP and to the Province at March 31, 1995 are as follows:

Year ended March 31	Principal Maturing	Effective Interest Rate (%)
1997	\$ 462	12.01
1998	339	12.61
1999	333	13.00
2000	336	13.29
1-5 years	<u>1,470</u>	
6-25 years	<u>79,932</u>	9.65
Total	<u>\$81,402</u>	

Notes to Financial Statements *(continued)*

(all tables are in thousands of dollars)

Note 5: Related-Party Transactions

(i) The Province

Advances from the Province to the Authority are made under two credit facilities of \$1.6 billion and \$3.5 billion each. Repayments of advances under each of the facilities can be made in whole or in part at any time provided that the loans are fully repaid by January 31, 1996 and August 31, 1996 respectively. The second facility can be used as a revolving credit line, allowing for successive advances of money to be repaid under the loan. All advances made under either facility bear interest at the 90 day Province of Ontario Treasury Bill rate, reset every 90 days. (March 31, 1995 – 8.233%; March 31, 1994 – 5.161%). Advances described in paragraphs ii (a) and (b) below are made under these credit facilities. As at March 31, 1995, \$500,000 (March 31, 1994 – \$500,000) had been advanced to the Authority, for its own use, under the first credit facility.

(ii) Other

The Authority functioning as an intermediary, receives funds from the Province and advances funds to capital corporations; universities, colleges, school boards and hospitals (“USH sector”); and others. When the Authority receives payments from these entities, it forwards them to the Province.

These transactions, undertaken by the Authority, are not reflected in these financial statements. The following amounts represent net funds advanced by the Authority, including capitalized interest, to March 31, 1995:

(a) Capital Corporations and others

	March 31, 1995	March 31, 1994
Ontario Clean Water Agency	\$ 279,925	\$ 65,000
Ontario Transportation Capital Corporation	1,131,273	238,000
Ontario Realty Corporation	767,357	337,400
Metro Toronto Convention Centre	22,443	
Ontario Legal Aid Plan	10,000	
Science North	360	

(b) Universities, Colleges, School Boards and Hospitals (USH Sector)

The net amounts advanced to the USH sector total \$1,124.5 million at March 31, 1995 (March 31, 1994 – \$560.9 million).

Note 6: Pension Plan

The Authority provides pension benefits for permanent employees through participation in two pension plans of the Ontario Public Service established by the Province of Ontario. These are the Ontario Public Service Employees' Union Pension Plan and the Public Service Pension Plan.

The Authority's contributions related to the pension plans for the year were \$326,000 (March 31, 1994 - \$254,000) and are included in salaries, wages and benefits in the Statement of Net Income and Retained Earnings.

Note 7: Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year presentation.

Directors and Officers

Chair

Michael Gourley (appointed July 21, 1995)
Deputy Minister of Finance

Jay Kaufman (until June 16, 1995)

Vice-Chair & Chief Executive Officer

Tony Salerno (effective January 1, 1996)

John Madden (until December 31, 1995)

Directors

Phyllis Clark*
Assistant Deputy Minister, Corporate Policy and Planning
Division, Management Board Secretariat

Steve Dorey*
Assistant Deputy Minister, Office of Economic Policy, Ministry of Finance

David Guscott*
Assistant Deputy Minister, Policy and Planning, Ministry of Transportation

*** Members of the Audit Committee**

Through the Audit Committee, the Authority's Board of Directors ensures that staff adhere to appropriate standards of internal controls and management practices.

Senior Management Team

David Brand
Director, Province of Ontario Savings Office

David Howarth*
Director, Risk Control

Michael Manning
Director, Risk Management

Gadi Mayman
Director, Finance

Christine Moszynski
Director, Capital Markets Treasury

Ronald Otsuki*
Executive Director, Capital Markets

Bill Ralph
Director, Corporate Finance

Qaid Silk
Director, Capital Markets Analytics and Relations

Corey Simpson
Legal Advisor and Board Secretary

** Left the Ontario Financing Authority in July 1995.*

Glossary of Terms

All-In-Cost	The cost of issuing debt, inclusive of all fees and commissions.
Banker's Acceptance (BA)	A draft drawn and accepted by banks that is based upon funds that will pay its face value at maturity. Because the accepting institution is obligated to pay for the bill, a banker's acceptance is considered less risky than commercial paper.
Basis Point	One one-hundredth of one percent of yield, it is the smallest measure used in quoting yields on bonds and notes. For example, an addition of 40 basis points to a yield of 7.50% would increase the yield to 7.90%. Basis points are normally used when quoting yields on bonds or notes.
Canadian-Dollar Market	The markets for bonds denominated in Canadian dollars including the domestic, Euro, Global and Dragon bond markets.
Commercial Paper (CP)	Any short-term note or draft typically issued on a discount basis. In the United States, CP is limited to terms of 1 to 270 days and is supported by a CP-rated program.
Counterparty	A participant in a financial transaction, who assumes future rights/obligations.
Derivative	Generally a contract whose value is derived from the value of an underlying asset, liability, reference rate or index.
Domestic Bonds	Debt securities issued directly into the domestic market, and clearing through a domestic clearing system.
Dragon Bonds	Debt securities targeted to Asian investors and listed on Asian exchanges.

Euro Bonds	Debt securities issued directly into the international (non-domestic) markets, and clearing through Euroclear or Cedel. Euro-Can bonds are the Canadian dollar-pay version.
Floating Rate Notes (FRN)	Debt instruments that bear a variable rate of interest. Coupons are linked to a floating interest rate index, and pay out at a predetermined yield spread to the index.
Forward Rate Agreement (FRA)	An agreement between two parties for the purpose of fixing future borrowing/lending rates in advance.
Future	A contract that confers an obligation to buy/sell a commodity with a specified price and amount, on a future date.
Global Bonds	Debt securities issued directly into the international and domestic markets, clearing through various worldwide clearing systems.
Hedging	The practice of making offsetting commitments to minimize the impact of market fluctuations.
Issuance Spread	The difference between the yield required by investors on a given bond issue and the yield on the relevant benchmark bond.
Medium Term Notes	Debt instruments with maturities generally ranging from one to 15 years, offered under a Program for the Issuance of Debt Instruments. These notes are often structured to meet specific investor needs.
Money Market	A segment of the debt capital markets that issues and invests in debt instruments with a term to maturity of one year or less.

Glossary of Terms *(continued)*

Non-Public Debt	Any debt that bears covenants that categorically restrict trading in that instrument.
Option	Contract that confers the right to buy/sell a commodity at a specified price on a given date or within a certain period.
Private Placements	A debt issue that is offered to a single or a few investors as opposed to being publicly offered.
Public Debt	Any debt that is free to be publicly offered.
RRSPs	Registered Retirement Savings Plans. A tax-sheltered retirement savings plan for individual investors.
Repurchase Agreement (REPO)	An agreement by one party to sell a security with an agreement to buy it back at a specified price on a specified date.
Revenue Bonds	A bond secured by revenue from tolls, user charges or rents derived from the facility financed.
Self-Supporting Debt	Debt that finances a project, where the revenues will be adequate to pay off the bonds.
Swap	An exchange of payment streams between two counterparties. Swaps vary in terms of underlying security, such as currency, interest rate, equity, commodity, etc.