



Ministry *of* Finance

PUBLIC ACCOUNTS *of* **ONTARIO**

2013–2014

**FINANCIAL STATEMENTS OF
GOVERNMENT ORGANIZATIONS
(CONT'D)**

Volume 2b



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2013–2014

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GOVERNMENT ORGANIZATIONS
(CONT'D)**

Volume 2b

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**RESPONSIBLE MINISTRY FOR GOVERNMENT BUSINESS ENTERPRISES,
ORGANIZATIONS, TRUSTS & MISCELLANEOUS FINANCIAL STATEMENTS**

Ministry of Agriculture and Food/Rural Affairs

AgriCorp
Agricultural Research Institute of Ontario
Ontario Racing Commission

Ministry of the Attorney General

Legal Aid Ontario
The Public Guardian and Trustee for the Province of Ontario

Ministry of Economic Development, Trade and Employment/Research and Innovation

Ontario Capital Growth Corporation
Ontario Immigrant Investor Corporation

Ministry of Education

Education Quality and Accountability Office
Ontario Educational Communications Authority (TV Ontario)
Ontario French-Language Educational Communications Authority

Ministry of Energy

Hydro One Inc.
Independent Electricity System Operator
Ontario Energy Board
Ontario Power Authority
Ontario Power Generation Inc.

Ministry of the Environment

Ontario Clean Water Agency

Ministry of Finance

Deposit Insurance Corporation of Ontario
Liquor Control Board of Ontario
Losses Deleted from the Accounts
Motor Vehicle Accident Claims Fund
Ontario Electricity Financial Corporation
Ontario Financing Authority
Ontario Lottery and Gaming Corporation
Ontario Securities Commission
Pension Benefits Guarantee Fund
Provincial Judges Pension Fund
Revenue Remissions

Ministry of Government Services

Ontario Pension Board

Ministry of Infrastructure

General Real Estate Portfolio
Ontario Infrastructure and Lands Corporation (Infrastructure Ontario)
Toronto Waterfront Revitalization Corporation (Waterfront Toronto)

**RESPONSIBLE MINISTRY FOR GOVERNMENT BUSINESS ENTERPRISES,
ORGANIZATIONS, TRUSTS & MISCELLANEOUS FINANCIAL STATEMENTS**

Ministry of Health and Long-Term Care

Cancer Care Ontario
eHealth Ontario
Local Health Integration Network – Central
Local Health Integration Network – Central East
Local Health Integration Network – Central West
Local Health Integration Network – Champlain
Local Health Integration Network – Erie St. Clair
Local Health Integration Network – Hamilton Niagara Haldimand Brant
Local Health Integration Network – Mississauga Halton
Local Health Integration Network – North East
Local Health Integration Network – North Simcoe Muskoka
Local Health Integration Network – North West
Local Health Integration Network – South East
Local Health Integration Network – South West
Local Health Integration Network – Toronto Central
Local Health Integration Network – Waterloo Wellington
Ontario Agency for Health Protection and Promotion (Public Health Ontario)
Ornge

Ministry of Labour

Workplace Safety and Insurance Board

Ministry of Municipal Affairs and Housing

Ontario Mortgage and Housing Corporation

Ministry of Natural Resources

Algonquin Forestry Authority
Forest Renewal Trust

Ministry of Northern Development and Mines

Northern Ontario Heritage Fund Corporation
Ontario Northland Transportation Commission

Ministry of Tourism, Culture and Sport

The Centennial Centre of Science and Technology (Ontario Science Centre)
Metropolitan Toronto Convention Centre Corporation
Niagara Parks Commission
Ontario Place Corporation
Ontario Tourism Marketing Partnership Corporation
Ontario Trillium Foundation
Ottawa Convention Centre Corporation
Province of Ontario Council for the Arts (Ontario Arts Council)
The Royal Ontario Museum
Toronto Organizing Committee for the 2015 Pan American and Parapan American Games (Toronto 2015)

Ministry of Transportation

Metrolinx

A GUIDE TO THE PUBLIC ACCOUNTS

1. SCOPE OF THE PUBLIC ACCOUNTS

The 2013-2014 Public Accounts of the Province of Ontario comprise the **Annual Report and Consolidated Financial Statements** and three volumes:

- Volume 1** contains ministry statements and detailed schedules of debt and other items. The ministry statements reflect the financial activities of the government's ministries on the accrual basis of accounting, providing a comparison of appropriations with actual spending. Ministry expenses include all expenses that are subject to appropriation approved by the Legislative Assembly, but exclude adjustments arising from consolidation of government organizations whose expenses are not appropriated.
- Volume 2** contains the financial statements of Government Organizations and Business Enterprises that are part of the government's reporting entity and other miscellaneous financial statements.
- Volume 3** contains the details of payments made by ministries to vendors (including sales tax) and transfer payment recipients that are not deemed to be prohibited by the *Freedom of Information and Protection of Privacy Act*.

2. A GUIDE TO VOLUME 2 OF THE PUBLIC ACCOUNTS

The financial statements of the selected crown corporations, boards and commissions are for fiscal periods ending within the Province's own fiscal period April 1, 2013 to March 31, 2014. They are presented in the same detail as the approved, audited financial statements and as nearly as possible in the same form. The statements have been presented in the order shown in the Table of Contents. In addition, a listing is provided which groups the crown corporations, boards and commissions by ministerial responsibility.

GOVERNMENT ORGANIZATIONS (CONT'D)

THE NIAGARA PARKS COMMISSION

MANAGEMENT REPORT

October 31, 2013

The Management of The Niagara Parks Commission are responsible for the financial statements and all other information presented in these statements. The statements have been prepared by management in accordance with the framework identified in note 2 in the accompanying audited financial statements.

The financial statements include amounts based on best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the statements are presented fairly, in all material respects.

Management maintains a system of internal accounting and administrative control that is designed to provide reasonable assurance that the financial information is relevant, reliable, accurate and that the Commission's assets are properly accounted for and adequately safeguarded.

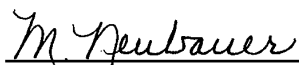
The Board of The Niagara Parks Commission is responsible for gaining assurance that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The Board, through the Audit and Finance Committee, meets periodically with Management to discuss financial results, auditing matters, financial reporting issues and to satisfy itself that each group is properly discharging responsibilities. The Committee reviews the financial statements before recommending approval by the Board.

The financial statements have been audited by Grant Thornton LLP, the Commission's appointed External Auditor and in accordance with Canadian generally accepted auditing standards on behalf of the Commission, Minister of Tourism, Culture and Sport and the Provincial Auditor General. Grant Thornton LLP had direct and full access to all Commission records as well as full access to the Audit and Finance Committee with and without the presence of management to discuss their audit and findings as to the integrity of the Commission's financial reporting.



John Lohuis
General Manager
February 14, 2014



Margaret Neubauer
(A) Senior Director, Corporate Services
February 14, 2014



Grant Thornton

Independent auditor's report

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To The Niagara Parks Commission, the Minister of Tourism, Culture and Sport and the Auditor General

We have audited the accompanying financial statements of The Niagara Parks Commission, which comprise the statement of financial position as at October 31, 2013, and the statements of operations, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the basis of accounting described in Note 2 to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Niagara Parks Commission as at October 31, 2013, and the results of its operations, changes in net debt and cash flows for the years then ended in accordance with the basis of accounting described in Note 2 to the financial statements.

Basis of accounting

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes that basis of accounting. The financial statements are prepared to assist The Niagara Parks Commission to comply with the financial reporting provisions in the Province of Ontario Ministry of Tourism Memorandum of Understanding and Regulation 395/11 to the Ontario Financial Administration Act. As a result, the financial statements may not be suitable for another purpose.

Port Colborne, Canada
February 14, 2014

A stylized, handwritten-style signature of "Grant Thornton LLP" in black ink.

Chartered Accountants
Licensed Public Accountants

The Niagara Parks Commission Statement of Financial Position

As at October 31

2013

2012

(in thousands of dollars)

Financial assets

Cash and cash equivalents	\$ 5,654	\$ 10,110
Accounts receivable	3,579	1,904
Inventories – saleable	<u>3,282</u>	<u>3,583</u>
	<u>12,515</u>	<u>15,597</u>

Liabilities

Accounts payable	7,866	6,319
Accrued payroll	2,834	2,440
Deferred revenue (Note 3)	1,370	1,396
Deferred capital funding (Note 4)	22,590	12,887
Long term financing (Note 5)	31,971	33,676
Post-employment benefits (Note 6)	4,105	3,933
Power plant stabilization obligation (Note 7)	<u>28,087</u>	<u>27,497</u>
	<u>98,823</u>	<u>88,148</u>

Net debt

	<u>(86,308)</u>	<u>(72,551)</u>

Non-financial assets

Tangible capital assets (Note 8)	158,486	149,349
Inventories – other	1,312	1,071
Prepaid expenses	<u>183</u>	<u>267</u>
	<u>159,981</u>	<u>150,687</u>

Accumulated surplus (Note 9)

	<u>\$ 73,673</u>	<u>\$ 78,136</u>

Commitments and contingencies (Notes 11 and 12)

On behalf of the Commission



Chair



Commissioner

See accompanying notes to the financial statements.

The Niagara Parks Commission

Statement of Operations

For the Year Ended October 31, 2013
(in thousands of dollars)

	Budget <u>2013</u>	Actual <u>2013</u>	Actual <u>2012</u>
Revenues			
Revenue producing operations	\$ 70,232	\$ 66,621	\$ 67,283
Land rent	6,689	6,678	6,629
Commission, rentals and fees	2,773	2,867	2,756
Premium on United States funds – net	50	226	29
Sundry revenue	<u>100</u>	<u>120</u>	<u>299</u>
	<u>79,844</u>	<u>76,512</u>	<u>76,996</u>
Expenses (Page 20)			
Revenue producing operations			
Cost of goods sold	11,087	11,087	11,112
Operating	33,526	33,239	31,949
Maintenance	14,652	14,158	13,736
Administrative and police	11,155	10,668	11,157
Marketing and promotion	<u>3,854</u>	<u>3,208</u>	<u>3,544</u>
	<u>74,274</u>	<u>72,360</u>	<u>71,498</u>
Net surplus for the year before undernoted items	<u>5,570</u>	<u>4,152</u>	<u>5,498</u>
Other items			
Interest expense – net (Note 13)	1,706	1,660	1,769
Amortization of tangible capital assets (Note 14)	7,702	7,755	7,459
Amortization of deferred capital funding (Note 4)	(689)	(708)	(449)
Loss (gain) on disposal of tangible capital assets		460	(2)
Contributed assets	<u> </u>	<u>(1,085)</u>	<u> </u>
	<u>8,719</u>	<u>8,082</u>	<u>8,777</u>
Net deficit from operations	(3,149)	(3,930)	(3,279)
Net increase in power plant stabilization obligation (Note 7)	(665)	(590)	(638)
Other capital funding	<u> </u>	<u>57</u>	<u>120</u>
Annual deficit	(3,814)	(4,463)	(3,797)
Accumulated surplus			
Beginning of year	<u>78,136</u>	<u>78,136</u>	<u>81,933</u>
End of year	<u>\$ 74,322</u>	<u>\$ 73,673</u>	<u>\$ 78,136</u>

See accompanying notes to the financial statements.

The Niagara Parks Commission

Statement of Changes in Net Debt

For the Year Ended October 31, 2013
(in thousands of dollars)

	Budget <u>2013</u>	Actual <u>2013</u>	Actual <u>2012</u>
Annual deficit	\$ (3,814)	\$ (4,463)	\$ (3,797)
Amortization of tangible capital assets	7,702	7,755	7,459
Acquisition of tangible capital assets (Note 16)	(17,000)	(16,560)	(3,302)
Contributed tangible capital assets		(849)	
Proceeds from the sale of tangible capital assets		57	74
Loss (gain) on sale of tangible capital assets – net	<u> </u>	<u>460</u>	<u>(2)</u>
	(13,112)	(13,600)	432
Use (acquisition) of prepaid expenses		84	(112)
(Acquisition) use of other inventories	<u> </u>	<u>(241)</u>	<u>524</u>
Increase (decrease) in net debt	(13,112)	(13,757)	844
Net debt			
Beginning of year	<u>(72,551)</u>	<u>(72,551)</u>	<u>(73,395)</u>
End of year	<u>\$ (85,663)</u>	<u>\$ (86,308)</u>	<u>\$ (72,551)</u>

See accompanying notes to the financial statements.

The Niagara Parks Commission

Statement of Cash Flows

For the Year Ended October 31
(in thousands of dollars)

2013

2012

Increase (decrease) in cash and cash equivalents

Operating activities

Annual deficit	\$ (4,463)	\$ (3,797)
Charges against income not requiring an outlay of funds		
Amortization of tangible capital assets	7,755	7,459
Amortization of deferred capital funding	(708)	(449)
Loss (gain) on disposal of tangible capital assets – net	460	(2)
Contributed tangible capital assets	(849)	
Post-employment benefits	411	390
Increase in power plant stabilization obligation – net	590	638

3,196 4,239

Net change in non-cash working capital balances related to operations (Note 15)	384	3,093

3,580 7,332

Capital activities

Acquisition of tangible capital assets (Note 16)	(16,560)	(3,302)
Proceeds from sale of tangible capital assets	57	74
	(16,503)	(3,228)

Financing activities

Issue of long term financing		176
Repayment of long term financing	(1,705)	(1,456)
Cash outlay related to post-employment benefits	(239)	(326)
Receipt of capital funding	10,411	4,434

8,467 2,828

Net (decrease) increase in cash and cash equivalents	(4,456)	6,932

Cash and cash equivalents

Beginning of year	10,110	3,178
End of year	\$ 5,654	\$ 10,110

See accompanying notes to the financial statements.

The Niagara Parks Commission

Notes to the Financial Statements

For the Year Ended October 31, 2013

1. Nature of operations

The Niagara Parks Commission (the "Commission") is governed by the Niagara Parks Act. Initially established in 1885, the Commission is an "Operational Enterprise" of the Province of Ontario and is responsible for maintaining, protecting and showcasing over 1,300 hectares of parkland stretching some 56 kilometres along the Niagara River from Lake Erie to Lake Ontario. The Commission is exempt from corporate income taxes under the Income Tax Act (Canada) and Ontario Corporation Tax Act.

The Commission is also classified as an Other Government Organization by the Ministry of Finance and as such, the Commission's audited financial statements are published as part of the Public Accounts.

2. Significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with the financial reporting provisions in the Province of Ontario Ministry of Tourism Memorandum of Understanding and the Regulation 395/11 to the Ontario Financial Administration Act. The significant accounting principles used in the preparation of these financial statements are in line with the accounting standards established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and Regulation 395/11 to the Ontario Financial Administration Act.

The significant accounting principles used in the preparation of these financial statements are summarized below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with maturities of less than three months.

Inventories

Saleable and other inventories are valued at the lower of average cost and net realizable value.

Tangible capital assets

Tangible capital assets are recorded at cost. Cost includes all directly attributable expenses in the acquisition, construction, development and/or betterment of the asset required to install the asset at the location and in the condition necessary for its intended use. Contributed tangible capital assets are capitalized at estimated fair value upon acquisition.

The Commission capitalizes an amount of interest as part of the costs of its capital works in progress and financed via long term financing.

Works of art for display in the Commission property are not included as capital assets. Works of art are held for exhibition, educational and historical interest. Such assets are deemed worthy of preservation because of the social rather than financial benefits they provide to the community. No valuation of the collection has been disclosed in the financial statements.

The Niagara Parks Commission

Notes to the Financial Statements

For the Year Ended October 31, 2013

2. Significant accounting policies (continued)

Tangible capital assets (continued)

Leases are classified as capital or operating leases. Leases that transfer substantially all benefits incidental to ownership are accounted for as capital leases. All other leases are accounted for as operating leases and the related lease payments are charged to expenses as incurred.

Amortization is calculated on a straight-line basis to write-off the net cost of each asset over its estimated useful life for all classes except land. Land is considered to have an infinite life without amortization. Residual values of assets are assumed to be zero with any net gain or loss arising from the disposal of assets recognized in the Statement of Operations. Amortization is charged on a monthly basis. Assets under construction are not amortized until the asset is available for productive use.

Amortization is based on the following classifications and useful lives:

<u>Classification</u>	<u>Useful Life</u>
Land improvements, buildings, roadways and structures	7 to 40 years
Equipment and furnishings	3 to 10 years
Vehicles	10 to 12 years

Deferred revenue

Revenue that is restricted by legislation of senior governments or by agreement with external parties are deferred and reported as restricted revenues. When qualifying expenses are incurred, restricted revenues are brought into revenue at equal amounts. Revenues received in advance of expenses that will be incurred in a later period are deferred until they are earned by being matched against those expenses.

Deferred capital funding

Government transfers for capital purposes are recorded as a liability, referred to as deferred capital funding and are recognized into revenue at the same rate as the related tangible capital assets are amortized, in accordance with Regulation 395/11 to the Ontario Financial Administration Act, as disclosed above.

Post-employment benefits

The present value of the cost of providing employees with future benefit programs is expensed as employees earn these entitlements.

Revenue recognition

Revenue from gift shops, restaurants and attractions are recognized when merchandise has been transferred to the customer or services have been rendered. Revenue from land rent, commissions, rentals, fees and sundry are recognized over the life of the agreement or when earned.

The Niagara Parks Commission

Notes to the Financial Statements

For the Year Ended October 31, 2013

2. Significant accounting policies (continued)

Foreign currency translation

These financial statements are presented in Canadian dollars. Assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the Statement of Financial Position date. Gains and losses on translation are reflected in the annual surplus/deficit.

Use of estimates and measurement uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Two areas in which estimates are used are with regards to post-employment benefits and the power plant stabilization obligation.

3. Deferred revenue	<u>2013</u>	<u>2012</u>
	<i>(in thousands of dollars)</i>	
Defunct power stations (Note 7)	\$ 215	\$ 215
Sale proceeds related to Fort Erie land transaction	492	548
Other	<u>663</u>	<u>633</u>
	<u>\$ 1,370</u>	<u>\$ 1,396</u>

Fort Erie land transaction obligation

In fiscal 2009, the Commission and the Peace Bridge Authority ("PBA") entered into an agreement to transfer parcels of land. The PBA acquired a 5.952 acre parcel located in Fort Erie from the Commission for \$ 2,021,206. The Commission acquired an option for \$ 670,000 plus an annual sum of \$ 7,300 adjusted for inflation, to receive 1.973 acres of river front property located at the end of Jarvis Street in Fort Erie from the PBA. The agreement calls for the net proceeds to the Commission in the amount of \$ 1,351,206 to be spent on a) funding improvements at Old Fort Erie which are intended for the 200th year anniversary of the War of 1812 and b) returning and/or maintaining the Jarvis Street property as parkland.

The net proceeds were recorded as part of deferred revenue on the Statement of Financial Position. To date approximately \$ 812,000 from these proceeds have been spent on the capital works project for the renovation of Historic Fort Erie and approximately \$ 47,000 has been spent on the Jarvis Street property maintenance. As of October 31, 2013, approximately \$ 492,000 remains for use in 2014 and beyond.

The Niagara Parks Commission

Notes to the Financial Statements

For the Year Ended October 31, 2013

4. Deferred capital funding	<u>2013</u>	<u>2012</u>
	<i>(in thousands of dollars)</i>	
Deferred capital funding		
Beginning of year	<u>\$ 12,887</u>	<u>\$ 8,902</u>
Received during year for the following capital projects:		
Incline railway replacement	3,000	4,000
Road resurfacing	2,000	
Bridge rehabilitation	3,939	
Other capital projects	<u>1,472</u>	<u>434</u>
	<u>10,411</u>	<u>4,434</u>
Amortization	<u>(708)</u>	<u>(449)</u>
End of year	<u>\$ 22,590</u>	<u>\$ 12,887</u>

5. Long term financing	<u>2013</u>	<u>2012</u>
	<i>(in thousands of dollars)</i>	
Unsecured fixed rate term loan requiring blended payments of principal and interest of \$ 2,640,907 per annum, bearing interest at 5.06% through to April, 2027	\$ 26,107	\$ 27,364
Unsecured fixed rate term loan requiring blended first annual payment of \$ 543,418 and then payments of \$ 569,965 per annum thereafter, bearing interest at 5.07% through to April, 2027	5,754	6,019
Unsecured note payable, repaid during the year		176
The Commission has an option to purchase land requiring annual payments of \$ 7,300 until January, 2028 (Note 3)	<u>110</u>	<u>117</u>
	<u>\$ 31,971</u>	<u>\$ 33,676</u>

The principal payments of the long term financial obligations due in the next five fiscal periods are as follows:

2014	\$ 1,606
2015	1,695
2016	1,772
2017	1,861
2018	1,955

The Niagara Parks Commission

Notes to the Financial Statements

For the Year Ended October 31, 2013

6. Post-employment benefits

Defined termination benefits

The Commission provides a defined employee future benefit, payable on termination to certain full time employees with a minimum of five years of service. The benefit is calculated on the basis of one week's remuneration, at the time of termination, for every year of full time service provided to the Commission to a maximum of twenty-six weeks. The accrued benefit liability as at October 31, 2013 is \$ 4,105,056 (2012 - \$ 3,933,356).

The Commission requires that an actuarial valuation of the post-employment benefits be conducted every three years. The last valuation was completed for the year ending October 31, 2010 with extrapolations for 2011, 2012 and 2013.

As a result of an actuarial valuation conducted in 2010 for the year ending October 31, 2010, it was determined that an actuarial gain of \$ 140,884 existed. The actual obligation as at October 31, 2013 is \$ 3,964,373 (2012 - \$ 3,792,472). Since the actuarial gain is less than 10% of the actual obligation, no minimum amortization has been recorded for the year.

Defined benefit plan information	<u>2013</u>	<u>2012</u>
	<i>(in thousands of dollars)</i>	
Employee benefit plan assets	\$ Nil	\$ Nil
Employee benefit plan liabilities	<u>4,105</u>	<u>3,933</u>
Employee benefit plan deficit	<u>\$ 4,105</u>	<u>\$ 3,933</u>
Benefit obligation recognized on the Statement of Financial Position		
Benefit obligation, beginning of year	\$ 3,933	\$ 3,869
Expense for the year	411	390
Benefits paid during the year	<u>(239)</u>	<u>(326)</u>
Benefit obligation, end of year	<u>\$ 4,105</u>	<u>\$ 3,933</u>
The net benefit expense is as follows:		
Current service cost	\$ 222	\$ 207
Interest cost	<u>189</u>	<u>183</u>
	<u>\$ 411</u>	<u>\$ 390</u>

The main actuarial assumptions applied in the valuation of the defined benefit plan are as follows:

Interest (discount) rate – the accrued obligation and the expense for the year were determined using a discount rate of 5%.

Salary levels – future salary and wage levels were assumed to increase at 3% per annum.

These assumptions will be reviewed with the next actuarial valuation in fiscal 2014.

The Niagara Parks Commission

Notes to the Financial Statements

For the Year Ended October 31, 2013

6. Post-employment benefits (continued)

Pension benefits

The Commission provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund ("PSPF") and the Ontario Public Service Employees' Union Pension Fund ("OPSEU Pension Fund"). These are defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU Pension Fund, determines the Commission's annual payments to the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Commission. The Commission's annual payments of \$ 2,160,074 (2012 - \$ 2,018,061), of which \$ 1,080,037 (2012 - \$ 1,009,030) represents the employees' portion, are included in the administrative and police expense on the Statement of Operations.

The cost of post-employment, non-pension benefits are paid by the Province and therefore are not included in the Statement of Operations.

7. Power plant stabilization obligation

The Province of Ontario directed the Commission to accept ownership of three former electricity generating power stations all located within Commission lands.

The Toronto Power Generating Station ("TPGS") and the Ontario Power Generating Station ("OPGS") were transferred by Ontario Power Generation Inc. ("OPG") to the Commission at no cost in August, 2007. As part of the terms of transfer of TPGS and OPGS, OPG was to undertake certain structural and environmental work to ensure that the buildings were no threat to the public. The Canadian Niagara Power Generating Station ("CNPGS") previously owned by Fortis Ontario was transferred April 30, 2009.

The Ministry of Tourism engaged the services of an architectural firm (The Ventin Group Inc.) to ensure that the original Government Directive governing the initial transfer was complied with and to identify work and related costs required to "stabilize and mothball" all the facilities until an ultimate use for the buildings can be determined. The Ventin Group identified the remaining lead paint at the TPGS and OPGS as a deficiency which OPG should have resealed or encapsulated after cleaning. The Ventin Group reported that there are substantial costs required to bring the three power stations to what would be considered a "mothball" state. Therefore, additional costs would be required to bring these buildings to a "development ready" state. Further, there are in existence certain secondary structures related to TPGS and OPGS that were not accounted for in the original Government Directive that will result in additional remediation costs at some point in the future.

The Commission is of the belief that the acceptance of these power generating stations will require a significant infusion of funds that is beyond its capacity to meet. As at October 31, 2013, ongoing negotiations with the Province have not resulted in any assurance that the Commission will not be responsible for any future costs. Any costs that are expected to be incurred for the purposes described above will not commence without funding received from the Province.

The Niagara Parks Commission

Notes to the Financial Statements

For the Year Ended October 31, 2013

7. Power plant stabilization obligation (continued)

An asset retirement obligation of \$ 25,146,000 as of October 31, 2009 was calculated. This value represented the Commission's best estimate of the costs required to "stabilize and mothball" the three power stations based on an engineer report. The report also identified contingency costs of approximately \$ 3,600,000 which was not accrued in the asset retirement obligation at that time. The Commission estimates that this work could take approximately three to four years to complete. In order to determine the net present value of the asset retirement obligation, staff have estimated that, subject to financing being received from the Province, work will not commence for several years. It is estimated that the work may commence in 2016. The cost of capital and the rate of inflation estimated over the course of the calculation was 5.059% and 3%, respectively. This results in a net present value of \$ 23,047,707 as at October 31, 2013. This is an increase of \$ 464,978 from 2012 and has been recorded in the Statement of Operations.

Two additional studies were completed during the year ended October 31, 2010 which identified an additional liability involved with the "stabilization and mothball" process. The first report identified an additional \$ 6,305,000 for external/infrastructure work that is required. The second study identified an additional \$ 1,260,000 related to additional costs to stabilize the roofs of the buildings. Together these two reports equal an increase of \$ 7,565,000. As previously mentioned it is estimated this work will not commence until 2016 and correspondingly another calculation for the net present value of this additional liability was performed using a cost of capital of 5.059% and inflation rate of 2% respectively. This results in net present value of \$ 6,741,885 as at October 31, 2013 for this portion of the liability. This is an increase of \$ 200,113 from 2012 and has also been recorded in the Statement of Operations.

	<u>2013</u>	<u>2012</u>
	<i>(in thousands of dollars)</i>	
Power plant stabilization obligation		
Beginning of year	<u>\$ 27,497</u>	<u>\$ 26,859</u>
Current year increase in present value of original obligation	<u>665</u>	650
Actual work performed during year	<u>(75)</u>	<u>(12)</u>
Net increase in power plant stabilization obligation	<u>590</u>	<u>638</u>
End of year	<u>\$ 28,087</u>	<u>\$ 27,497</u>

A capital asset has not been recorded for these properties as there is an impairment in their value, which has been documented in the various studies carried out to date.

As at October 31, 2009, the Commission had received \$ 1,550,000 in funding from the Ministry of Tourism to assist in the "stabilizing and mothball" process. Approximately \$ 215,000 of this funding remains for use in 2014 and beyond. The actual work performed in 2013 was funded from other grants received from the Province.

The Commission has incurred annual costs related to maintenance and security for all sites and has recorded them in the Statement of Operations and are included in the maintenance expense.

The Niagara Parks Commission

Notes to the Financial Statements

For the Year Ended October 31, 2013

8. Tangible capital assets		2013	2012
		(in thousands of dollars)	
	Cost	Accumulated Depreciation	

9. Accumulated surplus		2013	2012
		<i>(in thousands of dollars)</i>	
Operating surplus		<u>\$ 1,940</u>	<u>\$ 6,780</u>
Investment in tangible capital assets		<u>135,896</u>	<u>136,462</u>
Unfunded			
Long term debt		(31,971)	(33,676)
Post-employment benefits		(4,105)	(3,933)
Power plant stabilization obligation		<u>(28,087)</u>	<u>(27,497)</u>
		<u>(64,163)</u>	<u>(65,106)</u>
Accumulated surplus		<u>\$ 73,673</u>	<u>\$ 78,136</u>

Surplus funds

Pursuant to Section 16(2) of the Niagara Parks Act, any surplus moneys shall, on the order of the Lieutenant Governor in Council, be paid to the Minister of Finance and shall form part of the consolidated revenue fund. As of October 31, 2013 no surplus moneys have been recorded as a liability to the Minister of Finance.

The Niagara Parks Commission

Notes to the Financial Statements

For the Year Ended October 31, 2013

10. Credit facilities

The credit facilities, which have a maximum borrowing capacity of \$ 15,000,000, provide for two types of loans. There is a variable rate option which varies with the Canadian Imperial Bank of Commerce prime rate and there is a fixed rate operating loan facility available with a maximum term not to exceed 364 days at rates which are set relative to banker's acceptance rates. These credit facilities are unsecured and expire on October 31, 2014. As at October 31, 2013, \$ Nil has been drawn upon for all credit facilities (2012 – \$ Nil).

11. Commitments

The Commission has committed to approximately \$ 600,000 in capital works projects in the next year.

The Commission has two agreements with a franchisor requiring the payment of service fees of 4% of gross sales and advertising and marketing fees of 2.5% of gross sales. The terms of the agreements are 10 years, expiring in 2016 and 2022. In addition, the Commission has an agreement to lease related equipment from the franchisor, at a rental fee ranging from 1% to 4% of gross sales depending on the level of sales. The Commission has the option to purchase said equipment for a price equal to the unamortized value.

The Commission leases vehicles, equipment and premises under operating leases expiring in 2017. The total obligation under operating leases amounts to approximately \$ 200,000. Lease payments due in the next four fiscal periods are as follows:

2014	\$ 173
2015	9
2016	9
2017	9

12. Contingencies

The Commission is in litigation pertaining to certain claims for which the likelihood of loss is not determinable and the amount not reasonably estimable. Accordingly, no provision for these claims is reflected in the financial statements.

13. Interest expense – net

	Budget 2013	Actual 2013	Actual 2012
	<i>(in thousands of dollars)</i>		
Interest revenue	\$ (20)	\$ (43)	\$ (30)
Loan interest expense	<u>1,726</u>	<u>1,703</u>	<u>1,799</u>
	<u>\$ 1,706</u>	<u>\$ 1,660</u>	<u>\$ 1,769</u>

The Niagara Parks Commission

Notes to the Financial Statements

For the Year Ended October 31, 2013

14. Amortization of tangible capital assets	Budget <u>2013</u>	Actual <u>2013</u>	Actual <u>2012</u>
	<i>(in thousands of dollars)</i>		
Amortization of income producing assets	\$ 4,353	\$ 4,432	\$ 4,275
Amortization of non-income producing assets	<u>3,349</u>	<u>3,323</u>	<u>3,184</u>
	<u>\$ 7,702</u>	<u>\$ 7,755</u>	<u>\$ 7,459</u>

15. Statement of cash flows	<u>2013</u>	<u>2012</u>
	<i>(in thousands of dollars)</i>	

Changes in working capital components include

Accounts receivable	\$ (1,675)	\$ 1,901
Inventories	60	1,118
Accounts payable and accrued payroll	1,941	361
Deferred revenue	(26)	(175)
Prepaid expenses	<u>84</u>	<u>(112)</u>
	<u>\$ 384</u>	<u>\$ 3,093</u>
Interest received	<u>\$ 43</u>	<u>\$ 30</u>
Interest paid	<u>\$ 1,703</u>	<u>\$ 1,799</u>

16. Acquisition of tangible capital assets

During the year, tangible capital assets were acquired at an aggregate cost of \$ 16,560,754 (2012 - \$ 3,302,000) of which \$ 849,220 (2012 - \$ 156,000) was acquired by means of contributed assets from the Ontario Power Generation Tunnel Project. Cash payments of \$ 15,711,534 (2012 - \$ 3,146,000) were made to purchase tangible capital assets.

17. Financial instruments and risk management

Fair value

The fair value of the post-employment termination benefit was determined using an actuarial valuation based on information presented in Note 6 to the financial statements.

The fair value of the power plant stabilization obligation was determined using a present value calculation presented in Note 7 to the financial statements.

The Niagara Parks Commission

Notes to the Financial Statements

For the Year Ended October 31, 2013

17. Financial instruments and risk management (continued)

Credit risk

The Commission is exposed to a credit risk by its customers. However, because of the large number of customers, credit risk concentration is reduced to a minimum.

Currency risk

The Commission has cash of \$ 652,958 that is denominated in U.S. dollars. These funds have been converted to the Canadian equivalent at the rate of \$ 1 U.S. equals \$ 1.0427 Canadian. The Commission realized approximately 12.5% of its sales in foreign currency in 2013 (2012 – 13.9%). Consequently, some assets and revenues are exposed to foreign exchange fluctuations.

Cash flow risk

The Commission has variable rate bank overdraft facilities bearing interest which varies with the prime interest rate. Accordingly, the Commission is exposed to cash flow risks relating to potential fluctuations in market interest rates.

18. Comparative figures

Certain 2012 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2013.

The Niagara Parks Commission

Schedule of Tangible Capital Assets

For the Year Ended October 31, 2013

(in thousands of dollars)

	<u>Land</u>	<u>Land Improvements</u>	<u>Buildings, Roadways and Structures</u>	<u>Equipment and Furnishings</u>	<u>Vehicles</u>	<u>Capital Works in Progress</u>	<u>2013</u>	<u>2012</u>
Cost								
Beginning of year	\$ 14,359	\$ 17,135	\$ 203,239	\$ 40,623	\$ 8,724	\$ 1,860	\$ 285,940	\$ 284,942
Add additions			849	1,237	269	15,054	17,409	3,302
Less disposals			(1,330)	(1,255)	(5,193)		(7,778)	(2,304)
Transfers of capital works in progress			11,275			(11,275)		
End of year	<u>14,359</u>	<u>17,135</u>	<u>214,033</u>	<u>40,605</u>	<u>3,800</u>	<u>5,639</u>	<u>295,571</u>	<u>285,940</u>
Accumulated amortization								
Beginning of year			93,131	35,453	8,007		136,591	131,364
Add amortization			6,051	1,448	256		7,755	7,459
Less disposals			(846)	(1,255)	(5,160)		(7,261)	(2,232)
End of year			<u>98,336</u>	<u>35,646</u>	<u>3,103</u>		<u>137,085</u>	<u>136,591</u>
Net book value	<u>\$ 14,359</u>	<u>\$ 17,135</u>	<u>\$ 115,697</u>	<u>\$ 4,959</u>	<u>\$ 697</u>	<u>\$ 5,639</u>	<u>\$ 158,486</u>	<u>\$ 149,349</u>

The Niagara Parks Commission

Schedule of Expenses by Object

For the Year Ended October 31, 2013

(in thousands of dollars)

	Budget <u>2013</u>	Actual <u>2013</u>	Actual <u>2012</u>
Cost of goods sold	\$ 11,087	\$ 11,087	\$ 11,112
Salaries, wages and benefits	44,249	43,633	41,613
Sales and other	2,408	2,547	2,459
Equipment repairs and maintenance	4,284	3,947	4,235
Materials and supplies	2,417	2,260	2,209
Advertising and promotion	2,110	1,418	1,942
Facilities	6,117	5,988	5,709
Administrative	<u>1,602</u>	<u>1,480</u>	<u>2,219</u>
	<u>\$ 74,274</u>	<u>\$ 72,360</u>	<u>\$ 71,498</u>

NORTHERN ONTARIO HERITAGE FUND CORPORATION**Responsibility for Financial Reporting**

The accompanying financial statements of the Northern Ontario Heritage Fund Corporation (NOHFC) have been prepared in accordance with Canadian public sector accounting standards, 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 June 25, 2014.

Management is responsible for the integrity of the financial statements and 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.

The Board, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, comprised of members who are not employees/officers of NOHFC generally meets periodically with management and the Office of the Auditor General to satisfy itself that each group has properly discharged its respective responsibility.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report outlines the scope of the Auditor's examination and opinion.



D. Bruce Strapp
Executive Director
NOHFC



Susan Richichi, CPA, CA
Manager Financial Services (A)
NOHFC



Jocelyn Ouellet, CPA, CMA
Senior Financial Consultant (A)
NOHFC



Melanie Muncaster
Manager Program and Services
NOHFC



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Northern Ontario Heritage Fund Corporation
and to the Minister of Northern Development and Mines

I have audited the accompanying financial statements of the Northern Ontario Heritage Fund Corporation, which comprise the statement of financial position as at March 31, 2014 and the statements of operations, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Northern Ontario Heritage Fund Corporation as at March 31, 2014, and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 25, 2014

Gary Peall, CPA, CA, LPA
Deputy Auditor General

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NORTHERN ONTARIO HERITAGE FUND CORPORATION
Statement of Financial Position
As at March 31, 2014

	March 31, 2014 (\$000s)	March 31, 2013 (\$000s)
Financial assets		
Cash and cash equivalents (Note 3)	237,926	215,501
Accrued interest	1,488	883
Loans receivable (Note 4)	63,126	66,602
	302,540	282,986
Liabilities		
Accounts payable and accrued liabilities	2,338	1,155
	2,338	1,155
Net financial assets	300,202	281,831
Non-financial assets		
Tangible capital assets (Note 5)	16	20
Net investment by the Province of Ontario	300,218	281,851

Commitments (Note 10)

See accompanying notes to financial statements.

On behalf of the Board:



Co-Chair



Co-Chair



Executive Director

NORTHERN ONTARIO HERITAGE FUND CORPORATION
Statement of Operations
For the Year Ended March 31, 2014

	Budget (\$000s)	2014 (\$000s)	2013 (\$000s)
Revenue			
Province of Ontario grant	100,000	100,000	100,000
Interest on cash and cash equivalents	2,742	2,502	2,385
Interest on loans receivable	1,934	2,873	2,788
Other (Note 6 and 7)	-	301	714
	<u>104,676</u>	<u>105,676</u>	<u>105,887</u>
Expenses			
Conditional contributions	88,060	69,751	75,649
Credit losses, net of recoveries (Note 8)	6,190	11,367	11,792
Administration (Note 9)	8,913	6,191	6,446
	<u>103,163</u>	<u>87,309</u>	<u>93,887</u>
Excess of revenue over expenses	<u>1,513</u>	18,367	12,000
Net investment by the Province of Ontario, beginning of year		<u>281,851</u>	<u>269,851</u>
Net investment by the Province of Ontario, end of year		<u>300,218</u>	<u>281,851</u>

See accompanying notes to financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION
Statement of Changes in Net Financial Assets
For the Year Ended March 31, 2014

	2014 (\$000s)	2013 (\$000s)
Excess of revenue over expenses for the year	18,367	12,000
Amortization of tangible capital assets	<u>4</u>	<u>4</u>
Increase in net financial assets	<u>18,371</u>	<u>12,004</u>
Net financial assets, beginning of year	<u>281,831</u>	<u>269,827</u>
Net financial assets, end of year	<u>300,202</u>	<u>281,831</u>

See accompanying notes to financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION
Statement of Cash Flows
For the Year Ended March 31, 2014

	2014 (\$000s)	2013 (\$000s)
Lending, investing and financial assistance activities		
Loan disbursements	(19,310)	(23,954)
Loan repayments and recoveries	12,018	9,189
Conditional contributions	(68,278)	(75,611)
Interest received on loans receivable	2,076	1,876
Other revenue	302	714
	<u>(73,192)</u>	<u>(87,786)</u>
Financing activities		
Cash contributions from the Province for:		
Lending and financial assistance activities	<u>100,000</u>	<u>100,000</u>
Operating activities		
Amortization	(4)	(4)
Interest received on cash and cash equivalents	2,097	2,869
Administration costs	(6,476)	(6,205)
	<u>(4,383)</u>	<u>(3,340)</u>
Increase in cash and cash equivalents	22,425	8,875
Cash and cash equivalents, beginning of year	<u>215,501</u>	<u>206,626</u>
Cash and cash equivalents, end of year	<u><u>237,926</u></u>	<u><u>215,501</u></u>

See accompanying notes to financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION
Notes to Financial Statements
March 31, 2014

1. NATURE OF THE BUSINESS

The Corporation was established, without share capital, on June 1, 1988 under the *Northern Ontario Heritage Fund Act*. The purpose of the Corporation is to fund infrastructure improvements and economic development opportunities in Northern Ontario by providing financial assistance by way of conditional contributions, forgivable performance loans, and incentive term loans. As an Ontario Crown agency, the Corporation is exempt from federal and provincial income taxes under the *Income Tax Act (Canada)*.

The Corporation partners with communities, businesses, entrepreneurs and youth across Northern Ontario to create jobs and strengthen the Northern economy. The Corporation delivers seven targeted programs as follows: Enterprises North Job Creation Program, Youth Internship and Co-op Program, Young Entrepreneur Program, Northern Energy Program, Emerging Technology Program, Entrepreneur Program and Infrastructure and Community Development Program.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used to prepare these statements are summarized below:

(a) Basis of Accounting

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board.

(b) Transactions with the Province of Ontario

The Province of Ontario contributes funds to finance the lending and financial assistance activities. The net investment by the Province of Ontario is increased (reduced) by the excess (deficiency) of revenue over expenses.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist primarily of funds on deposit in chartered banks and short-term investments on deposit with the Ontario Financing Authority, a related party.

(d) Financial Instruments

Financial instruments obtained in arm's-length transactions are initially measured at their fair value. Interest free loans are discounted to fair value when initially recorded. Financial instruments are subsequently measured in one of the following categories (i) fair value or (ii) cost or amortized cost. The Corporation uses fair value for the subsequent measurement of cash and cash equivalents. The Corporation uses amortized cost for the subsequent measurement of loans receivable and accounts payable and accrued liabilities. A Statement of Remeasurement Gains and Losses is not presented because this information is readily apparent.

NORTHERN ONTARIO HERITAGE FUND CORPORATION
Notes to Financial Statements
March 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Tangible Capital Assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset.

The cost, less residual value of the tangible capital asset, is amortized on a straight line basis over their estimated useful lives as follows:

Automotive	7 years

(f) Provision for Credit Losses

Credit losses arise on loans receivable issued by the Corporation. In addition to specific write-offs and write-downs, a provision for credit losses is maintained in an amount considered adequate to absorb anticipated credit-related losses. The provision for losses on loans consists of provisions on specific loans and is deducted from loans receivable.

The amounts written off and written down in the year, net of realized recoveries of amounts written off and written down in prior years, and changes in provisions, are charged to credit losses in the Statement of Operations.

(g) Revenue Recognition

Government grants are recognized when receivable. Amounts are determinable and collectability is assured. Interest income is recognized on the accrual basis.

(h) Conditional Contributions and Forgivable Loans

The Corporation expenses conditional contributions and forgivable loans when disbursed. Approved commitments are not recognized in the financial statements until the conditions of the funding have been met by the recipients.

(i) Use of Estimates

Preparation of the financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated. Significant estimates include the provision for credit losses and the loan discount.

NORTHERN ONTARIO HERITAGE FUND CORPORATION
Notes to Financial Statements
March 31, 2014

3. CASH AND CASH EQUIVALENTS

The *Northern Ontario Heritage Fund Act* restricts investments to securities issued or guaranteed by the provinces, Canada, United States, United Kingdom, the International Bank for Reconstruction and Development and any Canadian Schedule I or II bank, and other investments as authorized by the Lieutenant Governor in Council. The Corporation, through an Investment Management Agreement with the Ontario Financing Authority, invests excess funds in securities as allowed by the Act.

Cash and cash equivalents consist of:

	2014 (\$000s)	2013 (\$000s)
Cash	75,997	89,062
Short-term investments	161,929	126,439
	<u>237,926</u>	<u>215,501</u>

Short-term investments consist of treasury bills (maturing within 365 days) which yielded 1.03% on average (2013 – 1.10%). All treasury bills are redeemable on demand.

4. LOANS RECEIVABLE

	2014 (\$000s)	2013 (\$000s)
Current	7,305	5,778
Long-term	83,679	88,611
Loans in arrears and default	15,592	5,200
Provision for credit losses on specific loans	(43,002)	(31,941)
Loan discount	(448)	(1,046)
	<u>63,126</u>	<u>66,602</u>

Generally, loans bear fixed interest rates ranging from 0% to 8.75% and are fully repayable within 20 years from the date disbursed.

The changes in the provision for credit losses on specific loans are as follows:

	2014 (\$000s)	2013 (\$000s)
Balance, beginning of year	31,941	20,396
Loans written off in the year	(125)	(247)
Change in loan provision	11,186	11,792
Balance, end of year	<u>43,002</u>	<u>31,941</u>

NORTHERN ONTARIO HERITAGE FUND CORPORATION
Notes to Financial Statements
March 31, 2014

4. LOANS RECEIVABLE (CONTINUED)

The changes in the loan discount balances are as follows:

	2014 (\$000s)	2013 (\$000s)
Balance, beginning of year	1,046	1,823
Amount of loan discharged	2	38
Amount amortized to interest on loans receivable	(600)	(815)
Balance, end of year	448	1,046

5. TANGIBLE CAPITAL ASSETS

	2014 (\$000s)	2013 (\$000s)
Cost		
Opening	26	26
Additions	-	-
Closing	26	26
Accumulated amortization		
Opening	6	2
Amortization	4	4
Closing	10	6
Net book value, end of year	16	20

6. PATTEN POST DIVERSIFICATION FUND

The Corporation was responsible for the administration of a Fund whose proceeds were received from Ontario Power Generation Incorporated. The objective of the Fund was to benefit communities that suffered economic hardship as a result of uranium mine closures in the Elliot Lake area. The Corporation processed applications for funding according to established funding criteria.

All projects are now completed. The remaining funds were recognized as other revenue in the statement of operations in 2013 as there is no obligation to return undisbursed funds.

NORTHERN ONTARIO HERITAGE FUND CORPORATION
Notes to Financial Statements
March 31, 2014

6. PATTEN POST DIVERSIFICATION FUND (CONTINUED)

The activity of the Fund was as follows:

	2014 (\$000s)	2013 (\$000s)
Investment income	-	-
Disbursements to communities	-	(56)
Net results for the year	-	(56)
Undisbursed balance recognized as other income	-	(418)
Fund balance, beginning of year	-	474
Fund balance, end of year	-	-

7. DUKE ENERGY FUND

The Corporation was responsible for the administration of a Fund whose proceeds were received from Union Gas Limited, a Duke Energy Company, on July 15, 2005. The objective of the Fund was to benefit Northern Ontario through funding for job-training projects proposed by educational institutions located in Northern Ontario under NOHFC's Emerging Technologies program. The Corporation processed applications for funding based on advice from Duke Energy Company and according to established funding criteria.

All projects are now completed. The remaining funds were recognized as other revenue in the statement of operations in 2013 as there is no obligation to return undisbursed funds.

The activity of the Fund was as follows:

	2014 (\$000s)	2013 (\$000s)
Investment income	-	-
Net results for the year	-	-
Undisbursed balance recognized as other income	-	(240)
Fund balance, beginning of year	-	240
Fund balance, end of year	-	-

NORTHERN ONTARIO HERITAGE FUND CORPORATION
Notes to Financial Statements
March 31, 2014

8. CREDIT LOSSES

Credit losses shown in the Statement of Operations are as follows:

	2014 (\$000s)	2013 (\$000s)
Loans written off in the year	306	247
Less: amounts provided in previous years	(125)	(247)
	181	-
Change in provision on active loans	11,446	11,792
Change in loan provision	11,627	11,792
Less recoveries	(260)	-
Credit losses, net of recoveries	11,367	11,792

9. ADMINISTRATION EXPENSES

Details of administration expenses in the year are as follows:

	Budget (\$000s)	2014 (\$000s)	2013 (\$000s)
Salaries, wages and benefits	1,815	1,688	1,776
Transportation and communication	217	371	181
Services	4,472	1,623	2,030
Management fees	2,338	2,303	2,159
Marketing	-	120	5
Supplies and equipment	67	60	47
Financial information system	-	22	244
Amortization of tangible capital assets	4	4	4
	8,913	6,191	6,446

The Ministry of Government Services provides pension benefits for all of NOHFC's permanent staff through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund which are both multi-employer defined benefit pension plans established by the Province of Ontario. The costs of the pension plans, and other post-retirement non-pension benefits provided to eligible staff are paid by the Ministry and are not included in these financial statements.

10. COMMITMENTS

Funds committed, but not disbursed, as at March 31, 2014 are \$222,988,339 (2013: \$191,381,160).

11. BUDGETED FIGURES

Budgeted figures approved by the Board of the Corporation have been provided for comparison purposes.

NORTHERN ONTARIO HERITAGE FUND CORPORATION
Notes to Financial Statements
March 31, 2014

12. FINANCIAL INSTRUMENTS

Effective April 1, 2012, the Corporation adopted the new Public Sector Handbook Standard 3450 – Financial Instruments, which requires all financial instruments to be valued at fair value, cost or amortized cost. The standard provides comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments. The Corporation's financial instruments consist of cash and cash equivalents, loans receivable and accounts payable and accrued liabilities. The adoption of this standard did not have a financial impact on the financial statements of the Corporation.

The main risks that the Corporation's financial instruments are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Corporation provides credit to its loan portfolio clients in the normal course of operations. To mitigate the risk, the Corporation screens loan applicants, registers security on the loans and maintains provisions for contingent credit losses.

Liquidity risk

The Corporation's exposure to liquidity risk is low as cash and cash equivalents exceed the current commitments. The Corporation mitigates this risk by monitoring cash activities and expected outflows.

Market risk

Market risk is comprised of currency risk, interest rate risk and other price risk. The Corporation does not conduct any significant transactions that are denominated in foreign currency. The Corporation's loans receivable bear fixed interest rates. The Corporation's cash and cash equivalents balance includes Treasury bills where market value is close to cost, so market risk is low.



MANAGEMENT RESPONSIBILITY REPORT

Ontario Agency for Health Protection and Promotion (OAHPP) management is responsible for preparing the accompanying financial statements in conformity with Canadian public sector accounting standards for government not-for-profit organizations as established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA).

In preparing these financial statements management selects appropriate accounting policies and uses its judgment and best estimates to report events and transactions as they occur. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Financial data included throughout this Annual Report is prepared on a basis consistent with that of the financial statements.

OAHPP maintains a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that assets are safeguarded and that transactions are executed and recorded in accordance with OAHPP policies for doing business.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control, and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit and Finance Standing Committee. The Committee meets at least four times annually to review audited and unaudited financial information. Ernst & Young LLP has full and free access to the Audit and Finance Standing Committee.

Management acknowledges its responsibility to provide financial information that is representative of OAHPP operations, is consistent and reliable, and is relevant for the informed evaluation of OAHPP activities.

Stephen D'Arcy, CPA, CA
Chief Financial Officer

Donna Marafioti
Interim Chief Operating Officer &
Vice President, Corporate Services and Human Resources

George Pasut
Interim Chief Executive Officer &
Vice President, Science & Public Health

June 24, 2014

INDEPENDENT AUDITORS' REPORT

To the Members of
Ontario Agency for Health Protection and Promotion

We have audited the accompanying financial statements of **Ontario Agency for Health Protection and Promotion [operating as Public Health Ontario]**, which comprise the statement of financial position as at March 31, 2014 and the statements of operations and changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

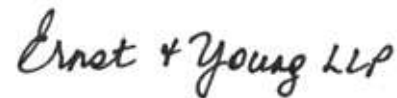
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Ontario Agency for Health Protection and Promotion [operating as Public Health Ontario]** as at March 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Canada,
June 24, 2014.



Chartered Accountants
Licensed Public Accountants

Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]

STATEMENT OF FINANCIAL POSITION

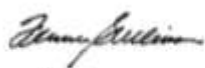
[in thousands of dollars]

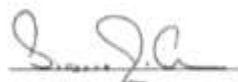
As at March 31

	2014 \$	2013 \$
ASSETS		
Current		
Cash	29,906	26,554
Accounts receivable [note 3]	4,262	8,338
Prepaid expenses	2,194	1,668
Total current assets	36,362	36,560
Restricted cash [note 4]	9,079	9,377
Accounts receivable [note 3]	—	2,711
Capital assets, net [note 5]	23,899	21,894
	69,340	70,542
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	32,249	33,528
Current portion of deferred contributions [note 7]	1,921	960
Total current liabilities	34,170	34,488
Deferred capital asset contributions [note 6]	25,961	26,510
Deferred contributions [note 7]	2,426	2,214
Accrued benefit liability [note 8]	5,224	5,554
Other liabilities	1,559	1,776
Total liabilities	69,340	70,542
Commitments and contingencies [note 11]		
Net assets	—	—
	69,340	70,542

See accompanying notes

On behalf of the Board:


 Director


 Director

**Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]**

**STATEMENT OF OPERATIONS AND
CHANGES IN NET ASSETS**

[in thousands of dollars]

Year ended March 31

	2014	2013
	\$	\$
REVENUE		
Ministry of Health and Long-Term Care		
Base operations	140,849	135,774
Health Promotion Resource Centre	3,573	3,586
Amortization of deferred capital asset contributions <i>[note 6]</i>	5,135	5,882
Other grants	1,563	1,026
Miscellaneous recoveries	1,625	1,695
	152,745	147,963
EXPENSES <i>[note 8]</i>		
Public health laboratory program	95,704	93,403
Science and public health programs	39,919	37,142
General and administration <i>[note 9]</i>	11,987	11,536
Amortization of capital assets <i>[note 5]</i>	5,135	5,882
	152,745	147,963
Excess of revenue over expenses for the year	—	—
Net assets, beginning of year	—	—
Net assets, end of year	—	—

See accompanying notes

Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2014 \$	2013 \$
OPERATING ACTIVITIES		
Excess of revenue over expenses for the year	—	—
Add (deduct) items not affecting cash		
Amortization of deferred capital asset contributions	(5,135)	(5,882)
Amortization of capital assets	5,135	5,882
Changes in non-cash operating items		
Increase in accounts receivable <i>[note 10]</i>	(1,206)	(62)
Increase in prepaid expenses	(526)	(56)
Decrease in restricted cash	298	351
Increase in deferred contributions	1,173	97
Increase (decrease) in other liabilities	(217)	40
Increase (decrease) in accounts payable and accrued liabilities <i>[note 10]</i>	336	(7,134)
Net change in accrued benefit liability	(330)	(98)
Cash used in operating activities	(472)	(6,862)
CAPITAL ACTIVITIES		
Acquisition of capital assets <i>[note 10]</i>	(8,754)	(1,313)
Cash used in capital activities	(8,754)	(1,313)
FINANCING ACTIVITIES		
Contributions for capital asset purchases <i>[note 10]</i>	12,578	2,742
Cash provided by financing activities	12,578	2,742
Net increase (decrease) in cash during the year	3,352	(5,433)
Cash, beginning of year	26,554	31,987
Cash, end of year	29,906	26,554

See accompanying notes

**Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]**

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

1. DESCRIPTION OF THE ORGANIZATION

Ontario Agency for Health Protection and Promotion ["OAHPP"] [operating as Public Health Ontario] was established under the Ontario Agency for Health Protection and Promotion Act, 2007 as a corporation without share capital. OAHPP's mandate is to enhance the protection and promotion of the health of Ontarians, contribute to efforts to reduce health inequities, provide scientific and technical advice and support to those working across sectors to protect and improve the health of Ontarians and to carry out and support activities such as population health assessment, public health research, surveillance, epidemiology, planning and evaluation.

Under the Ontario Agency for Health Protection and Promotion Act, 2007, OAHPP is primarily funded by the Province of Ontario.

OAHPP, as an agency of the Crown, is exempt from income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian public sector accounting standards as established by the Public Sector ["PS"] Accounting Board of the Chartered Professional Accountants of Canada. OAHPP has elected to follow PS 4200-4270 in the Public Sector Accounting Handbook.

Revenue recognition

Contributions are recognized in the accounts when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted contributions are recognized as revenue when initially recorded in the accounts. Externally restricted contributions are recorded as deferred contributions or deferred capital contributions when initially recorded in the accounts and recognized as revenue in the period in which the related expenses are incurred.

**Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]**

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

Capital assets

Capital assets are recorded at acquisition cost. Contributed capital assets are recorded at fair market value at the date of contribution. Amortization is provided on a straight-line basis based upon the estimated useful service lives of the assets as follows:

Building service equipment	5-30 years
Other equipment	5-10 years
Furniture	5-20 years
Leasehold improvements	Over the term of the lease

Inventory and other supplies held for consumption

Inventory and other supplies held for consumption are expensed when acquired.

Employee future benefits

Contributions to multi-employer, defined benefit pension plans are expensed on an accrual basis.

Other employee future benefits are non-pension benefits that are provided to certain employees and are accrued as the employees render the service necessary to earn these future benefits. The cost of these future benefits is actuarially determined using the projected unit credit method, prorated on service and management's best estimate of expected salary escalation and retirement ages of employees. Net actuarial gains and losses related to the employee future benefits are amortized over the average remaining service life of the related employee group. Employee future benefit liabilities are discounted using the average interest cost for the Province of Ontario's net new debt obligations with maturities that correspond to the duration of the liability.

Allocation of expenses

The costs of each function include the costs of personnel and other expenses that are directly related to the function. General support and other costs are not allocated.

Contributed materials and services

Contributed materials and services are not recorded in the financial statements.

Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

Financial instruments

Financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value and are subsequently measured at cost, net of any provisions for impairment.

Use of estimates

The preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2014 \$	2013 \$
Ministry of Health and Long-Term Care	1,498	9,491
Harmonized Sales Tax	1,533	813
Other	1,231	745
	4,262	11,049
Less amount recorded as long-term <i>[note 6]</i>	—	2,711
	4,262	8,338

There are no significant amounts that are past due or impaired.

Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

4. RESTRICTED CASH

[a] Restricted cash consists of the following:

	2014 \$	2013 \$
Ministry of Health and Long-Term Care [notes 4[b] and 8[b]]	8,820	9,037
Sheela Basrur Centre [note 7[a]]	259	340
	9,079	9,377

Restricted cash from the Ministry of Health and Long-Term Care ["MOHLTC"] represents funding received in connection with the liability assumed by OAHPP in connection with severance [note 8[b]] and other credits [primarily accrued vacation pay] related to employees who transferred to OAHPP [Ontario public health laboratories in 2008 and Public Health Architecture in 2011] and unspent cash pertaining to capital projects. Funds associated with severance and other credits are drawn down when transferred employees leave employment with OAHPP.

[b] The continuity of MOHLTC restricted cash is as follows:

	2014			
	Severance credits \$	Other credits \$	Capital projects \$	Total \$
	[note 7[b]]		[note 6]	
Restricted cash, beginning of year	5,632	1,500	1,905	9,037
Funding received	—	—	11,452	11,452
Interest earned	64	17	71	152
Restricted cash drawdown [note 8[b]]	(435)	(20)	(11,366)	(11,821)
Restricted cash, end of year	5,261	1,497	2,062	8,820

Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

	2013			
	Severance credits	Other credits	Capital projects	Total
	\$	\$	\$	\$
Restricted cash, beginning of year	5,999	1,516	1,882	9,397
Interest earned	74	19	23	116
Restricted cash drawdown [note 8[b]]	(441)	(35)	—	(476)
Restricted cash, end of year	5,632	1,500	1,905	9,037

5. CAPITAL ASSETS

Capital assets consist of the following:

	2014		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Building service equipment	369	192	177
Other equipment	26,250	20,523	5,727
Furniture	2,072	1,869	203
Leasehold improvements	7,641	3,459	4,182
Construction in progress	13,610	—	13,610
	49,942	26,043	23,899

Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

	2013		Net
	Cost	Accumulated	book
	\$	amortization	value
		\$	\$
Building service equipment	369	155	214
Other equipment	25,706	16,448	9,258
Furniture	2,072	1,565	507
Leasehold improvements	7,130	2,740	4,390
Construction in progress	7,525	—	7,525
	42,802	20,908	21,894

6. DEFERRED CAPITAL ASSET CONTRIBUTIONS

Deferred capital asset contributions represent the unamortized amount of contributions received for the purchase of capital assets. The amortization of deferred capital asset contributions is recorded as revenue in the statement of operations and changes in net assets. The continuity of the deferred capital asset contributions balance is as follows:

	2014	2013
	\$	\$
Deferred capital asset contributions, beginning of year	26,510	20,159
Contributions for capital purposes	4,515	12,210
Interest earned on unspent contributions	71	23
Amortization of deferred capital asset contributions	(5,135)	(5,882)
Deferred capital asset contributions, end of year	25,961	26,510
Unspent deferred capital asset contributions [notes 3 and 4[b]]	(2,062)	(4,616)
Deferred capital asset contributions spent on capital assets	23,899	21,894

Restricted cash includes \$2,062 [2013 - \$1,905 restricted cash and \$2,711 long-term receivable] [note 4[b]] related to unspent deferred capital asset contributions.

**Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]**

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

7. DEFERRED CONTRIBUTIONS

- [a] Deferred contributions consist of unspent externally restricted grants and donations for the following purposes:

	2014	2013
	\$	\$
Severance credits	1,004	1,115
Sheela Basrur Centre [note 4[a]]	259	340
Other	3,084	1,719
	4,347	3,174
Less current portion	1,921	960
	2,426	2,214

- [b] Deferred contributions for severance credits represent the difference between the restricted cash held for severance credits and the portion of the accrued benefit liability associated with service prior to the transfer of employees of the laboratories to OAHPP [note 8[b]].
- [c] Deferred contributions for the Sheela Basrur Centre [the "Centre"] represent unspent funds held by OAHPP restricted for the Centre's outreach programs. In addition to these funds, \$250 [2013 - \$220] is held by the Toronto Community Foundation for the benefit of the Centre and its programs.

Named after the late Dr. Sheela Basrur, a former Chief Medical Officer of Health for the Province of Ontario, the Centre was created to become a prominent provider of public health education and training.

Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

8. EMPLOYEE FUTURE BENEFIT PLANS

[a] Multi-employer pension plan

Certain employees of OAHPP are members of the Ontario Public Service Employees Union ["OPSEU"] Pension Plan, the Healthcare of Ontario Pension Plan ["HOOPP"] or the Ontario Public Service Pension Plan ["PSPP"], which are multi-employer, defined benefit pension plans. These pension plans are accounted for as defined contribution plans. OAHPP contributions to the OPSEU Pension Plan, HOOPP and PSPP during the year amounted to \$2,474 [2013 - \$2,304], \$2,775 [2013 - \$2,394] and \$545 [2013 - \$591], respectively, and are included in expenses in the statement of operations and changes in net assets.

[b] Severance credits

OAHPP assumed the non-pension post-employment defined benefit plans provided to employees from the Government of Ontario as part of the transfer of employees from Ontario public health laboratories [in 2008] and Public Health Architecture [in 2011]. These defined benefit plans provide a lump sum payment paid on retirement to certain employees related to years of service. The latest actuarial valuation for the non-pension defined benefit plan was performed as at March 31, 2012. OAHPP measures its accrued benefit obligation for accounting purposes as at March 31 of each year based on an extrapolation from the latest actuarial valuation.

Additional information on the benefit plans is as follows:

	2014	2013
	\$	\$
Accrued benefit obligation	5,672	6,242
Plan assets	—	—
Plan deficit	5,672	6,242
Unamortized actuarial losses	(448)	(688)
Accrued benefit liability, end of year	5,224	5,554

Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

The continuity of the accrued benefit liability as at March 31 is as follows:

	2014	2013
	\$	\$
Accrued benefit liability, beginning of year	5,554	5,652
Expense for the year	105	343
Contributions to cover benefits paid [note 4[b]]	(435)	(441)
Accrued benefit liability, end of year	5,224	5,554

The significant actuarial assumptions adopted in measuring OAHPP's accrued benefit obligation and expense are as follows:

	2014	2013
	%	%
Accrued benefit obligation		
Discount rate	3.25	3.00
Rate of compensation increase	3.25	3.25
Rate of inflation	2.25	2.25
Expense		
Discount rate	3.00	4.50
Rate of compensation increase	3.25	3.25
Rate of inflation	2.25	2.25

9. DIRECTORS' REMUNERATION

The Government Appointees Directive requires the disclosure of remuneration paid to directors. During the year ended March 31, 2014, directors were paid \$17 [2013 - \$22].

10. SUPPLEMENTAL CASH FLOW INFORMATION

The change in accounts payable and accrued liabilities related to the purchase of capital assets is adjusted for capital assets received but not paid for as at year-end of \$6,571 [2013 - \$8,186] and has been excluded from the statement of cash flows.

Ontario Agency for Health Protection and Promotion
[operating as Public Health Ontario]

NOTES TO FINANCIAL STATEMENTS

[in thousands of dollars]

March 31, 2014

The change in accounts receivable related to contributions for capital asset purchases is adjusted for contributions receivable but not received as at year-end of \$1,498 [2013 - \$9,491] and has also been excluded from the statement of cash flows.

11. COMMITMENTS AND CONTINGENCIES

- [a] Under the Laboratories Transfer Agreement, MOHLTC is responsible for all obligations and liabilities in respect of the public health laboratories that existed as at the transfer date, or which may arise thereafter and have a cause of action that existed prior to the transfer date of December 15, 2008.
- [b] OAHPP is a member of the Healthcare Insurance Reciprocal of Canada ["HIROC"]. HIROC is a pooling of the liability insurance risks of its members. Members of the pool pay annual deposit premiums which are actuarially determined and are expensed in the current year. These premiums are subject to further assessment for experience gains and losses, by the pool, for prior years in which OAHPP participated. As at March 31, 2014, no assessments have been received.
- [c] OAHPP has committed future minimum annual payments to Infrastructure Ontario related to premises as follows:

	\$
2015	17,956
2016	15,118
2017	13,453
2018	13,449
2019	13,227
Thereafter	261,770

12. COMPARATIVE FINANCIAL STATEMENTS

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 2014 financial statements.

Ontario Capital Growth Corporation

June 20, 2014

Management's Responsibility for Financial Reporting

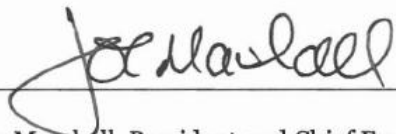
The accompanying financial statements of the Ontario Capital Growth Corporation (OCGC) have been prepared in accordance with Canadian public sector accounting standards and are the responsibility of Management. The preparation of financial statements necessarily involves the use of estimates based on 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 June 20, 2014.

Management maintains a system of internal controls designed to provide a 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 provide for appropriate delegation of authority and segregation of responsibilities. The Ontario Internal Audit Division of the Ministry of Finance has the ability to independently evaluate the effectiveness of these internal controls on an ongoing basis and, as applicable, report its findings to Management and the Audit and Risk Committee of the Board of Directors.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Audit and Risk Committee assists the Board of Directors in carrying out these responsibilities. It meets periodically with Management, internal auditors and the external auditor, as applicable, 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 an independent auditor, PricewaterhouseCoopers LLP. The auditor's responsibility is to express an opinion on whether OCGC's financial statements fairly represent OCGC's financial position in accordance with Canadian public sector accounting standards. The auditor's report, which appears on the following page, outlines the scope of the auditor's examination and its opinion.

On behalf of Management:



John Marshall, President and Chief Executive Officer



June 20, 2014

Independent Auditor's Report

To the Board of Directors of Ontario Capital Growth Corporation

We have audited the accompanying financial statements of Ontario Capital Growth Corporation, which comprise the statements of financial position as at March 31, 2014 and 2013 and the statements of operations and changes in accumulated operating surplus, remeasurement gains and losses, changes in net assets and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Capital Growth Corporation as at March 31, 2014 and 2013, and the results of its operations, its remeasurement gains and losses, changes in its net assets and its cash flows for the years then ended in accordance with Canadian public sector accounting standards

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

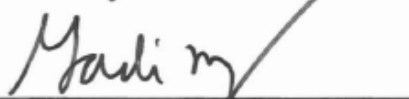
Ontario Capital Growth Corporation

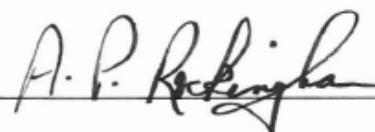
Statements of Financial Position

As at March 31, 2014 and 2013

	2014 \$	2013 \$
Assets		
Cash and cash equivalents	8,253,639	3,560,956
Marketable securities (note 5)	113,187,167	38,390,258
Accounts receivable (note 4)	3,145,833	15,254
Ontario Venture Capital Fund LP (OVCF) (note 6)	43,772,166	56,474,673
Ontario Emerging Technologies Fund (OETF) (notes 7 and 10)	59,076,002	55,878,817
Northleaf Venture Catalyst Fund LP (NVCF) (note 8)	2,632,720	-
	<u>230,067,527</u>	<u>154,319,958</u>
Liabilities		
Accounts payable (note 13)	<u>312,500</u>	<u>201,375</u>
Net Assets	<u>229,755,027</u>	<u>154,118,584</u>
Accumulated surplus	<u>229,755,027</u>	<u>154,118,584</u>
Accumulated surplus comprises		
Accumulated operating surplus	228,744,433	153,947,441
Accumulated remeasurement gains	<u>1,010,594</u>	<u>171,143</u>
	<u>229,755,027</u>	<u>154,118,584</u>

Approved by the Board of Directors

 Director

 Director

The accompanying notes are an integral part of these financial statements.

Ontario Capital Growth Corporation

Statements of Operations and Changes in Accumulated Operating Surplus

For the years ended March 31, 2014 and 2013

	2014 \$	2013 \$
Revenues		
Funding and transfer payments from the Province of Ontario		
OETF (note 7)	14,996,703	14,500,000
NVCF (notes 4 and 8)	50,000,000	-
Interest income	1,075,089	550,992
Investment income in funds (note 11)	1,182	1,135,383
Realized gains on sale of investment in funds	13,003,704	13,156
	<u>79,076,678</u>	<u>16,199,531</u>
Expenditures		
Reimbursements to MRI (note 13)	1,035,319	943,626
Cash management fees (note 9)	32,608	26,315
Professional services fees (note 9)	562,782	598,396
Board and committee member fees	10,100	24,788
Impairment of OETF investments (note 12)	2,652,198	2,670,000
Foreign currency exchange gain	(13,321)	(9,900)
	<u>4,279,686</u>	<u>4,253,225</u>
Operating surplus	74,796,992	11,946,306
Accumulated operating surplus - Beginning of year	<u>153,947,441</u>	<u>142,001,135</u>
Accumulated operating surplus - End of year	<u>228,744,433</u>	<u>153,947,441</u>

The accompanying notes are an integral part of these financial statements.

Ontario Capital Growth Corporation

Statements of Remeasurement Gains and Losses

For the years ended March 31, 2014 and 2013

	2014 \$	2013 \$
Accumulated remeasurement gains - Beginning of year	171,143	77,537
Unrealized gains attributable to		
Foreign exchange	435,250	93,606
Marketable securities	404,201	-
	839,451	93,606
Accumulated remeasurement gains - End of year	1,010,594	171,143

The accompanying notes are an integral part of these financial statements.

Ontario Capital Growth Corporation

Statements of Changes in Net Assets

For the years ended March 31, 2014 and 2013

	2014 \$	2013 \$
Net assets - Beginning of year	154,118,584	142,078,672
Operating surplus	74,796,992	11,946,306
Net remeasurement gains	839,451	93,606
Increase in net assets	75,636,443	12,039,912
Net assets - End of year	229,755,027	154,118,584

The accompanying notes are an integral part of these financial statements.

Ontario Capital Growth Corporation

Statements of Cash Flows

For the years ended March 31, 2014 and 2013

	2014 \$	2013 \$
Cash provided by (used in)		
Operating activities		
Increase in net assets	75,636,443	12,039,912
Unrealized gains attributable to marketable securities	(404,201)	-
Impairment of OETF investments	2,652,198	2,670,000
Realized gains on sale of investment in funds	(12,412,364)	(1,129,962)
Changes in non-cash operating balances		
Decrease (increase) in accounts receivable	(601,648)	3,500,556
(Decrease) increase in accounts payable	111,125	(598,625)
	<u>64,981,553</u>	<u>16,481,881</u>
Investing activities		
Purchase of marketable securities	(151,321,669)	(98,250,298)
Sale of marketable securities	77,532,183	118,442,192
Purchase of investments in OVCF	(19,387,189)	(20,684,347)
Purchase of investments in OETF	(11,436,315)	(14,904,554)
Sale of investments in OETF	14,867,144	220,100
Return of capital from OVCF	32,089,696	-
Purchase of investments in NVCF	(2,632,720)	-
	<u>(60,288,870)</u>	<u>(15,176,907)</u>
Increase in cash and cash equivalents during the year	4,692,683	1,304,974
Cash and cash equivalents - Beginning of year	<u>3,560,956</u>	<u>2,255,982</u>
Cash and cash equivalents - End of year	<u>8,253,639</u>	<u>3,560,956</u>

The accompanying notes are an integral part of these financial statements.

Ontario Capital Growth Corporation

Notes to Financial Statements

March 31, 2014 and 2013

1 Description of business

The Ontario Capital Growth Corporation (OCGC or the Corporation) is a corporation without share capital, established under the Ontario Capital Growth Corporation Act, 2008 (the Act), which was proclaimed in force as of February 1, 2009 as an agency of the Ministry of Research and Innovation (MRI). As of March 31, 2014, OCGC is responsible to the Minister of Research and Innovation (the Minister).

The legislative authority of the Corporation is set out in the Act. Under Section 4 of the Act, the objects of the Corporation are:

- a) to receive, hold, administer and otherwise deal with the interest of the Government of Ontario in the limited partnership known as the Ontario Venture Capital Fund LP;
- b) to receive, hold and deal with property, whether real or personal, in connection with the objects described in Section 4(a); and
- c) to carry out the other objects that are prescribed by regulations.

In July 2009, additional objects were prescribed by Ontario Regulation 278/09 made under the Act:

- a) to acquire, manage and otherwise deal with a portfolio of investments in businesses that the Corporation considers constitute emerging technologies businesses, which portfolio is known in English as the Ontario Emerging Technologies Fund and in French as Fonds ontarien de développement des technologies émergentes; and
- b) to receive, hold, invest, sell or otherwise deal with property, whether real or personal, in connection with the objectives described in clause 1(a).

In May 2013, additional objects were prescribed by Ontario Regulation 149/13 made under the Act to participate in the formation of one or more funds, to acquire interests in the funds, and to hold, administer and otherwise deal with those interests, where each fund meets the following criteria:

- a) It receives funding directly or indirectly from, among others, one or more of the following:
 - i) the Government of Canada;
 - ii) the Corporation; and
 - iii) private sector entities.
- b) Its goals include promoting the creation of a globally competitive venture capital industry, increasing the supply and effective deployment of early-stage investment capital and increasing the supply of top performing fund managers to manage venture capital investments in Ontario and Canada.

Ontario Capital Growth Corporation

Notes to Financial Statements

March 31, 2014 and 2013

- c) It invests in one or both of the following:
 - i) other funds that supply venture capital to companies; and
 - ii) innovative companies that require venture capital.
- d) It is managed by a private sector fund manager.

In January 2014, as part of a Government of Ontario \$50 million commitment to establish a new Ontario venture capital fund, the Corporation made an initial commitment of \$36.25 million to the Northleaf Venture Catalyst Fund LP alongside the federal government and private sector investors.

As required by the Agency Establishment and Accountability Directive, the Corporation and the Minister have entered into a memorandum of understanding, which outlines the operational, administrative, financial and other relationships that exist between the Minister, MRI and the Corporation.

OCGC is classified as an Operational Enterprise Agency. OCGC is responsible for fulfilling the Province of Ontario's contractual obligations as a limited partner in the Ontario Venture Capital Fund LP (OVCF) and the Northleaf Venture Catalyst Fund LP (NVCF). OCGC is also responsible for establishing, holding, managing and administering the Ontario Emerging Technologies Fund (OETF).

OVCF is a joint initiative between the Province of Ontario and leading institutional investors. It is structured as a fund-of-funds that invests primarily in Ontario-based and Ontario-focused venture capital and growth funds, which, in turn, make investments in innovative, high-growth companies. OVCF was established to provide investment funding to venture capital and growth equity managers capable of generating superior returns by investing in enterprises with a view to creating large, globally competitive companies.

OETF is structured as a direct co-investment fund that will only make investments in innovative high potential companies alongside other qualified investors with a proven track record of success. OETF is an initiative of the Government of Ontario to invest in innovative high potential companies with an Ontario footprint in three strategic sectors: (a) clean technology; (b) digital media and information and communications technologies; and (c) life sciences and advanced health technologies.

NVCF is an initiative between the Government of Ontario, the federal government and private sector investors. It is structured as a fund-of-funds that invests primarily in Canadian venture capital and growth funds which, in turn, make investments in innovative, high potential companies. NVCF was established to continue the goals and objectives of OVCF; that is, generate risk-adjusted returns by investing in enterprises to help create large, globally competitive companies.

OCGC claims exemption from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act (Canada). With the establishment of a Harmonized Sales Tax (HST), OCGC pays the HST on taxable supplies and services, and subsequently applies for a rebate of the HST paid.

OCGC operates in the same fiscal year ending March 31 as the Government of Ontario.

Ontario Capital Growth Corporation

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March 31, 2014 and 2013

2 Summary of significant accounting policies

The Corporation's functional and presentation currency is the Canadian dollar. All financial statement disclosures have been prepared in accordance with Canadian public sector accounting standards (PSAS) established by the Canadian Public Sector Accounting Board. The more significant accounting policies of the Corporation are summarized below.

Cash and cash equivalents

Cash and cash equivalents include demand deposits that are readily convertible into known amounts of cash and that are subject to an insignificant risk of change in value. Cash equivalents include investments that are short-term and highly liquid and have maturities of less than three months from the original purchase date.

Marketable securities

Marketable securities quoted in an active market are measured at fair value as at the dates of the statements of financial position with any unrealized gain or loss recognized on the statements of remeasurement gains and losses. Remeasurement gains and losses related to a particular investment are reclassified to the statements of operations and changes in accumulated operating surplus when that investment is settled. Fair value includes the value of accrued interest, as applicable.

Investments in marketable securities that are not traded in an active market are measured at cost. Impairment losses, which are other than temporary, are recognized in the statements of operations and changes in accumulated operating surplus when they occur.

Ontario Venture Capital Fund LP (OVCF)

The investment in OVCF is classified as a financial instrument and carried at cost based on the capital calls made by the general partner of OVCF. The investment in OVCF is not traded in an active market; therefore, the fair value of the investment is not readily determinable. OVCF investments are subsequently tested for impairment on each statements of financial position dates and any losses due to impairment are recognized in the statements of operations and changes in accumulated operating surplus on that date.

Ontario Emerging Technologies Fund (OETF)

The investments in OETF are classified as financial instruments and carried at cost or measured at fair value based on whether or not there exists an active market for the securities. OETF investments quoted in an active market are measured at fair value as at the statements of financial position dates with any unrealized gain or loss recognized on the statements of remeasurement gains and losses. Remeasurement gains and losses are reclassified to the statements of operations and changes in accumulated operating surplus when an investment becomes impaired or is derecognized. Impairment losses that are other than temporary are recorded to the statements of operations and changes in accumulated operating surplus when recognized. Fair value includes the value of accrued interest or dividends payable, as applicable.

Ontario Capital Growth Corporation

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When an OETF investment is not traded in an active market, it is measured at cost. OETF investments are tested for impairment on each statements of financial position dates and any impairment losses are recognized in the statements of operations and changes in accumulated operating surplus on those dates.

Accrued interest, dividends and realized gains on the sale of OETF investments are recorded as described below under revenue recognition. If the Corporation has evidence the amounts owing will be collected, these amounts are accrued as receivable; otherwise, a reserve is taken against these amounts. If, in a future year, the Corporation receives an amount that had been written off, it is recorded as a recovery that had been previously deemed uncollectible. Amounts written off or recovered are recognized in the statements of operations and changes in accumulated operating surplus in the year in which they occur.

Northleaf Venture Catalyst Fund LP (NVCF)

The investment in NVCF is classified as a financial instrument and carried at cost based on the capital calls made by the NVCF general partner. The investment in NVCF is not traded in an active market and therefore fair value of the investment is not readily determinable. After an initial minimum five years to make commitments to underlying funds, the investment in NVCF will be subsequently tested for impairment on each statements of financial position dates and any losses due to impairment will be recognized in the statements of operations and changes in accumulated operating surplus on those dates.

Fair value and impairment

The Corporation's carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to the immediate or short-term nature of these financial instruments.

The fair values of investments in OVCF and NVCF are not readily determinable and have been recorded at cost. Both OVCF and NVCF do not have a quoted market price in an active market. Subject to an impairment assessment policy, the Corporation may carry out periodic testing of fund investments to determine whether there has been another than temporary loss in value that would indicate impairment. If the investment is determined to be impaired, it is written down to the new carrying value and the resulting impairment expense is recognized immediately in the statements of operations and changes in accumulated operating surplus.

The co-investments made in OETF are recorded at cost, which represent fair value at the time of acquisition. Investments that are quoted in an active market are measured at fair value at the statements of financial position dates. Any unrealized gain or loss at this date is recognized in the statements of remeasurement gains and losses until the investment is derecognized or other than temporarily impaired. All other OETF investments are measured at cost or amortized cost. As part of the reporting process to the Province of Ontario, the Corporation is required to carry out periodic valuations of OETF investments to determine whether there has been an other than temporary loss in value that would indicate impairment. If the investments are determined to be impaired, they are written down to the new carrying value and the impairment expense is recognized immediately in the statements of operations and changes in accumulated operating surplus. Furthermore, to the extent that a security held in OETF represents a compound financial instrument with an embedded derivative, such as an equity conversion option, the value of that derivative at acquisition should be measured at fair value unless that derivative is linked to and must be settled by delivery of unquoted equity instruments, in which case, the derivative would be required to be measured at cost. For derivatives classified to the fair value

Ontario Capital Growth Corporation

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category, value is first determined by referencing a quoted price in an active market, or in absence of this, by applying a suitable valuation technique.

Revenue recognition

Interest income is recognized as it is earned. For marketable securities and OETF investments, interest income is accrued using the effective interest rate method.

Dividend income is recognized in the year the Corporation becomes entitled to receive the dividend as per the terms and conditions of the share issuance.

Realized gains on the sale of OETF investments are recognized in the year the Corporation becomes entitled to receive the proceeds as per the terms and conditions of the respective disposition.

Revenue on distributions from OVCF and NVCF are recognized in the year the Corporation becomes entitled to receive the distribution as per the terms and conditions of the respective limited partnership agreement.

OETF and NVCF funding received represents monies transferred from MRI to the Corporation, as described in notes 7 and 8, respectively.

Expense categories

Cash management fees primarily represent fees paid to the Ontario Financing Authority (OFA) for cash management and related services.

Professional fees relate to fees paid to third party service providers.

Board and committee member expenses represent monies paid to board and committee members according to the Board and Committee Members Remuneration Policy, which conforms with the Government Appointees Directive of Management Board of Cabinet (May 1, 2011).

Reimbursements to MRI represent direct OCGC expenses paid by MRI on its behalf for administrative purposes only.

Foreign currency translation

Foreign currency gains and losses on monetary items are recognized immediately in the statements of operations and changes in accumulated operating surplus. Unrealized foreign currency gains and losses on marketable securities, investments in OVCF, investments in NVCF and OETF investments are recognized in the statements of remeasurement gains and losses. Unrealized foreign currency exchange gains and losses are reclassified from the statements of remeasurement gains and losses to the statements of operations and changes in accumulated operating surplus when the financial instrument is derecognized.

Ontario Capital Growth Corporation

Notes to Financial Statements

March 31, 2014 and 2013

Measurement uncertainty

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Such estimates are based on the best information available at the time of preparation of the financial statements and are periodically reviewed to reflect new information as it becomes available. Actual results could differ from these estimates.

3 Financial instruments

The Corporation has exposure to credit risk, liquidity risk, currency risk, interest rate risk and other price risk arising from financial instruments. This note presents information about OCGC's exposure to each of these risks.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Corporation is currently exposed to credit risk through its holdings of convertible debt instruments in OETF. The Corporation considers obligations of the Governments of Ontario and Canada to be relatively risk-free (note 5).

Liquidity risk

Liquidity risk is the risk an entity will encounter difficulty in raising funds to meet both expected and unexpected cash demands associated with its financial liabilities. The Corporation manages liquidity risk by maintaining holdings of cash or highly liquid investments. In addition, MRI provides funding to the Corporation to meet obligations as required.

Currency risk

Currency risk is the risk to the Corporation's results of operations that arises from fluctuations of foreign currency exchange rates and the degree of volatility of these rates. The Corporation's exposure to foreign currency exchange risk is limited to holding US dollar cash and cash equivalents and holding OETF investments denominated in US dollars. OCGC does not hedge its US dollar exposure. The Corporation had a net exposure of \$4,655,823 to the US dollar as at March 31, 2014 (2013 - \$5,669,025). A 5% increase (5% decrease) of the Canadian dollar against the US dollar as at March 31, 2014 would result in an impact of \$232,791 on the statements of remeasurement gains and losses (2013 - \$283,451) with no impact on the operating surplus. In practice, the actual trading results may differ from this sensitivity analysis and the impact could be material.

Interest rate risk

Interest rate risk is the risk the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Corporation manages exposure through its normal operating and financing activities. The Corporation is exposed to interest rate risk primarily through its short-term marketable securities and OETF investments. Risks from interest rate

Ontario Capital Growth Corporation

Notes to Financial Statements

March 31, 2014 and 2013

fluctuations for marketable securities are minimal due to the investments being held for a term of three years or less to match the OVCF drawdowns projected by the OVCF fund manager and anticipated NVCF drawdowns projected by the Corporation. The impact of interest rate fluctuations on OETF investments are considered minimal as these instruments are primarily held for purposes of capital appreciation.

Other price risk

Other price risk is the risk the value of financial instruments will fluctuate as a result of changes in market prices or from factors specific to an individual investment. The maximum risk resulting from the financial instruments is equivalent to their fair value. The marketable securities consist of treasury bills that are not subject to significant price risk. As at March 31, 2014, if the value of the investments in OVCF, NVCF and OETF had increased or decreased by 5% and all other variables held constant, the value of the investments would have changed by \$5,274,044 (2013 - \$5,617,675). Investments made through OVCF, NVCF or in OETF are highly illiquid, do not have a readily determinable market price, and are generally in early stage companies where the ultimate value that may be realized by OCGC on eventual disposition is inherently unpredictable.

Returns on these investments will depend on factors specific to each company (such as financial performance, product viability and quality of management), and external forces (such as the economic environment and technological progress by competitors). The carrying value of the OETF portfolio is measured at cost less changes for any other than temporary impairment in value at the statements of financial position dates however, the amounts that may ultimately be realized could be materially different.

4 Accounts receivable

As a Schedule A provincial agency, OCGC is required to follow the pay and rebate model with respect to HST applied to direct purchases. The Corporation pays the HST on its purchases and, subsequently, files a monthly rebate claim with the Canada Revenue Agency for the HST paid. HST rebates receivable as at March 31, 2014 amounted to \$13,681 (2013 - \$15,254).

Realized gains on the sale of OETF investments are recognized in the year the Corporation becomes entitled to receive the proceeds as per the terms and conditions of the respective dispositions. The remaining balance as at March 31, 2014 in the amount of \$3,132,152 represents receivables as a result of miscellaneous dispositions (2013 - \$nil).

5 Marketable securities

OCGC may temporarily invest any monies not immediately required to carry out its objectives in:

- a) debt obligations of or guaranteed by the Government of Canada or a province of Canada; or
- b) interest bearing accounts and short-term certificates of deposit issued or guaranteed by a chartered bank, trust company, credit union or caisse populaire.

Ontario Capital Growth Corporation

Notes to Financial Statements

March 31, 2014 and 2013

The value of investments in marketable securities as at March 31 is as follows:

	2014		2013	
	Par value \$	Fair value \$	Par value \$	Fair value \$
Province of Ontario treasury bills, due dates ranging from June 11, 2014 to June 22, 2016, average coupon rate of 0.00%	53,230,000	52,666,610	38,495,000	38,390,258
Province of Ontario treasury bills, due dates ranging from April 16, 2014 to July 8, 2015, average coupon rate of 0.00%	61,052,000	60,520,557	-	-
	<u>114,282,000</u>	<u>113,187,167</u>	<u>38,495,000</u>	<u>38,390,258</u>

Fair value includes any accrued interest owing on the treasury bills.

The fair value of the marketable securities may fluctuate depending on changes in interest rates. For the year ended March 31, 2014, a change in interest rates of 1.00% would result in an impact of \$1.3 million (2013 - \$0.080 million) to the results of operations.

6 Ontario Venture Capital Fund LP (OVCF)

In June 2008, the OVCF was established with an investment commitment from the Province of Ontario of \$90 million. OVCF is a \$205 million joint initiative of the Government of Ontario and private institutional investors, formed to invest primarily in Ontario-based and Ontario-focused venture capital and growth equity funds that support innovative, high potential companies.

The investment in OVCF is carried at cost, based on the capital calls made by the general partner of OVCF. OVCF is not traded in an active market and the fair value of the investment is not readily determinable.

7 Ontario Emerging Technologies Fund (OETF)

OETF was launched in July 2009 with a commitment from the Province of Ontario to provide funding of \$250 million. OETF, as a direct co-investment fund, makes investments into innovative high potential companies alongside other qualified investors with a proven track record of success. Investments are in three strategic sectors: (a) clean technology; (b) digital media and information and communication technologies; and (c) life sciences and advanced health technologies.

On May 30, 2012, the Corporation implemented a pause on any new investments under OETF for an indefinite period of time. This decision did not affect the Corporation's ability to continue to make follow-on investments into existing portfolio companies and did not affect investments-in-process that had already been approved by OCGC's Board of Directors but had not yet closed.

For the year ended March 31, 2014, the aggregate OETF transfer payments received from MRI were \$14,996,703 (2013 - \$14,500,000).

Ontario Capital Growth Corporation

Notes to Financial Statements

March 31, 2014 and 2013

8 Northleaf Venture Catalyst Fund LP (NVCF)

On March 27, 2013, MRI entered into a transfer payment agreement with OCGC to invest in a new Ontario venture capital fund subsequently named the Northleaf Venture Catalyst Fund. To be structured as a limited partnership, the proposed target size of the fund is \$300 million with capital commitments from the Government of Ontario, Government of Canada and the private sector. The Government of Ontario has committed to provide funding of \$50 million to the Corporation to execute this limited partnership.

In January 2014, the NVCF was established with an initial investment commitment from the Corporation of \$36.25 million. The investment in NVCF is carried at cost, based on the capital calls net of any return of recyclable capital made by the NVCF general partner. As NVCF is not traded in an active market, the fair value of the investment is not readily determinable.

For the year ended March 31, 2014, the Corporation met the terms and conditions of the NVCF transfer payment agreement for MRI to disburse its entire \$50 million funding obligation (2013 - \$nil).

9 Contractual commitments

OCGC has the following contractual commitments:

- a) In accordance with a financial service agreement between Ontario Financing Authority (OFA) and OCGC, OFA conducts investment and cash management services and activities for OCGC. OFA is the agency of the Province of Ontario responsible for providing financial and centralized cash management services for the government. OCGC pays OFA a fee for these services based on assets under management and reimburses for other related activities on a cost recovery basis.
- b) Pursuant to the NVCF limited partnership agreement, OCGC is committed to making capital contributions on notice of capital calls. As at March 31, 2014, the total uncalled commitment is \$45,945,609 to be drawn down over the remaining years of the limited partnership.
- c) In accordance with the contract between Ernst & Young LLP (E&Y) and OCGC, E&Y conducts due diligence services and activities to qualify OETF co-investors. OCGC pays both fixed and hourly rates for these services and activities, respectively.
- d) In accordance with the contract between Covington Capital Corporation (Covington) and OCGC, Covington conducts services and activities to qualify, monitor, and exit OETF's investments. OCGC pays both fixed and hourly rates for these services and activities, respectively.
- e) In accordance with the contract between CanCn Accounting & Tax Inc. (CanCn) and OCGC, CanCn performs accounting functions relating to the operations of OCGC. OCGC pays an hourly rate for these services.
- f) Pursuant to the NVCF limited partnership agreement, OCGC is committed to making capital contributions on notice of capital calls. As at March 31, 2014, the total uncalled commitment is \$33,617,280 to be drawn down over the remaining years of the limited partnership.

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10 Investments in OETF

Investments in OETF can take the form of shares or convertible debt transacted in Canadian dollars (CAD) or US dollars (USD). The investments in OETF as at March 31, 2014 and 2013 are summarized as follows:

	2014			2013		
	Acquisition cost \$	Carrying value \$	Contingent* \$	Acquisition cost \$	Carrying value \$	Contingent \$
CAD investments	54,685,216	54,420,179	4,225,000	52,902,089	50,662,051	2,856,949
USD investments	10,215,766	4,655,823	-	9,084,044	5,216,766	78,901
	64,900,982	59,076,002	4,225,000	61,986,133	55,878,817	2,935,850

* Represents follow-up on investments committed to by the Corporation but not yet executed

All investments have been made in accordance with OETF guidelines. As at March 31, 2014, the OETF investment portfolio consisted of investments in 21 different companies, ranging from 0.22% to 4.35% of net assets. The percentage calculations exclude impaired investments in companies with a nominal or \$nil carrying value.

11 Income on investment funds

During the years ended March 31, 2014 and 2013, the Corporation recognized \$1,182 and \$1,135,383, respectively, of investment income in funds. With respect to investments in OETF, the accrued interest realized was reinvested into new securities of the respective OETF portfolio companies as part of the exchange or conversion and is reflected in the cost basis of these securities.

12 Impairment of OETF investments

For the years ended March 31, 2014 and 2013, impairment charges of \$2,652,198 and \$2,670,000, respectively, in OETF investments were identified by management and were recognized in the statements of operations and changes in accumulated operating surplus.

Ontario Capital Growth Corporation

Notes to Financial Statements

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13 Accounts payable

The Corporation and MRI carry out their respective operations on a shared-cost basis. The Corporation reimburses MRI for certain expenses incurred on its behalf. These expenses may include but are not limited to staff salaries, benefits, information technology and rent allocations per staff member, external legal services, website development, French language translation, and other services.

Recognition and measurement of any reimbursement is subject to annual reconciliation between the Corporation and MRI, and approval of the extent and scope of MRI services to be provided. For each fiscal year ending March 31, the Corporation will seek certification from MRI that any further potential financial liability with respect to eligible expenses incurred on behalf of the Corporation is fully satisfied without further recourse.

The Corporation accrues eligible expenses reimbursable to MRI under accounts payable based on estimates provided by MRI that can be independently verified by the Corporation. Reimbursement payable in arrears as at March 31, 2014 amounted to \$119,931 (2013 - \$65,587).

The remaining balance as at March 31, 2014 in the amount of \$192,569 (2013 - \$135,788) represents payables in arrears to miscellaneous service providers.



Management's Responsibility for Financial Information

OCWA's management and Board of Directors are responsible for the financial statements and all other information presented in this annual report. The financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

OCWA is dedicated to the highest standards of integrity in its business. To safeguard assets, the Agency has a sound set of internal financial controls and procedures that balance benefits and costs. Management has developed, and continues to maintain, financial and management controls, information systems and management practices to provide reasonable assurance of the reliability of financial information in accordance with the bylaws of the Agency. Internal audits are conducted to assess management systems and practices, and reports are issued to the Executive Management Team.

The Board of Directors ensures that management fulfills its responsibilities for financial and internal control. The Board of Directors and the Audit and Finance Committee of the Board meet quarterly to oversee the financial activities of the Agency and at least once a year to review the financial statements and the external auditor's report and recommend them to the Minister of the Environment for approval.

The Auditor General has examined the financial statements. The Auditor General's responsibility is to express an opinion on whether the financial statements are presented fairly in accordance with Canadian public sector accounting standards. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

A handwritten signature in black ink, appearing to read "Rob Andrews".

Rob Andrews
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read "Dan Atkinson".

Dan Atkinson
Vice President,
Finance and Corporate Services

Toronto, Ontario
March 27, 2014



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Clean Water Agency,
the Minister of the Environment,
and the Minister of Finance

I have audited the accompanying financial statements of the Ontario Clean Water Agency which comprise the balance sheet as at December 31, 2013 and the statements of operations and change in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Clean Water Agency as at December 31, 2013 and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance Canadian public sector accounting standards.

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Toronto, Ontario
March 27, 2014

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

Balance Sheet

As at December 31, 2013

[in thousands of dollars]

	December 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and short-term investments (note 3a)	39,205	39,849
Accounts receivable, net		
Municipalities and other customers (note 3b)	22,062	24,384
Ministry of the Environment	144	333
Harmonized sales tax receivable	1,751	1,778
Prepaid Expenses	483	441
Current portion of investments receivable for water and wastewater facilities (note 2)	920	918
	64,565	67,703
Non-current assets:		
Investments in term deposits (note 3a)	23,719	17,058
Investments receivable for water and wastewater facilities (note 2)	2,161	3,067
Loan receivable - Ontario Infrastructure and Lands Corporation (note 3c)	120,000	120,000
Tangible Capital Assets, net (note 4)	8,986	9,742
	154,866	149,867
Total Assets	219,431	217,570

Liabilities and Net Assets

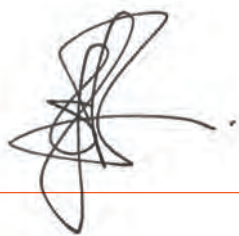
As at December 31, 2013

[in thousands of dollars]

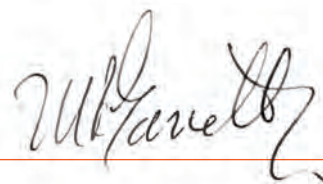
	December 31, 2013	December 31, 2012
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	15,856	17,198
Current portion of employee future benefits (note 8a)	3,093	2,688
	18,949	19,886
Long-term liabilities:		
Employee future benefits (note 8a)	12,855	10,871
Net Assets	187,627	186,813
Contingencies (note 7) and Measurement Uncertainty (note 1e)		
Total Liabilities and Net Assets	219,431	217,570

see accompanying notes to financial statements

On behalf of the Board



Director



Director

Statement of Operations and Change in Net Assets

For the year ended December 31, 2013

(in thousands of dollars)

	December 31, 2013	December 31, 2012
Utility Operations Revenues:		
Utility operations	157,222	147,217
Fees	2,186	2,828
Total Operating Revenues	159,408	150,045
Operating Expenses:		
Salaries and benefits [note 8a and note 8b]	72,791	67,544
Other operating expenses	85,618	81,410
Amortization of tangible capital assets	3,079	2,878
Total Operating Expenses	161,488	151,832
Deficiency of revenue over expenses – Utility Operations	[2,080]	[1,787]
Interest from Investments and loans receivable	2,914	2,845
Excess of revenue over expenses	834	1,058
Net Assets, opening balance	186,813	185,755
Adjustment to Net Assets [note 6]	[20]	0
Net Assets, ending balance	187,627	186,813

see accompanying notes to financial statements

Statement of Cash Flows

For the year ended December 31, 2013

(in thousands of dollars)

	December 31, 2013	December 31, 2012
Cash Provided by (used for) Operating Activities		
Deficiency of revenue over expense-Utility Operations	[2,080]	[1,787]
Items Not Affecting Cash		
Amortization of Tangible Capital Assets	3,079	2,878
Increase in future employee benefits expense	3,563	1,771
	4,562	2,861
Changes in non-cash operating working capital		
Accounts Receivable	2,538	[3,201]
Prepaid Expenses	[42]	[123]
Accounts Payable and Accrued Liabilities	[1,342]	636
Legislated Severance	[1,174]	[930]
	[20]	[3,618]
Net Cash Flows from operating activities	4,542	[757]
Cash Used in Investing Activities		
Interest	2,914	2,845
Principal Repaid on Loans	904	601
(Increase) Decrease in non-current Term Deposits	[6,661]	5,373
Net cash flows from investing activities	[2,843]	8,819
Cash Used in Capital Activities		
Tangible Capital Assets Acquired	[2,323]	[5,525]
Cash Used in Financing Activities		
Changes in Net Assets	[20]	-
Increase (decrease) in Cash and Short-Term Investments	[644]	2,537
Cash and Short-Term Investments, Opening Balance	39,849	37,312
Cash and Short-Term Investments, Closing Balance	39,205	39,849

Notes to Financial Statements

December 31, 2013

General

The Ontario Clean Water Agency [The “Agency”] was established on November 15, 1993, under the authority of The Capital Investment Plan Act, 1993 [the “Act”].

The Agency’s objects include:

- (a) assisting municipalities, the Government of Ontario and other persons or bodies to provide water and sewage works and other related services by financing, planning, developing, building and operating those works and providing those services;
- (b) financing and promoting the development, testing, demonstration and commercialization of technologies and services for the treatment and management of water, wastewater and stormwater;
- (c) carrying out the activities described in clauses (a) and (b) in Ontario and elsewhere in a manner that protects human health and the environment and encourages the conservation of water resources; and
- (d) with respect to activities described in clauses (a) and (b) that are carried out in Ontario , carrying them out in a manner that supports provincial policies for land use and settlement.

The Agency is exempt from Federal and Provincial income taxes.

1. SIGNIFICANT ACCOUNTING POLICIES

The Agency is classified as a government not-for-profit for financial reporting purposes. These financial statements are prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board. The significant accounting policies are as follows:

(a) Cash and Short-term Investments

Cash and short-term investments, including a portfolio of bonds, are recorded at cost. Accrued interest is recorded in accounts receivable. Bonds are expected to be held until maturity.

Notes to Financial Statements

December 31, 2013

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Tangible Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost. Tangible Capital Assets are amortized on a straight-line basis as follows:

Computer software	2-7 years
Information systems	7 years
Furniture and fixtures	5 years
Automotive equipment	4-20 years
Computer hardware	3-7 years
Machinery and equipment	5 years
Leasehold improvements	Life of the lease

(c) Revenue Recognition

Revenue on contracts with clients for the operation of water and wastewater treatment facilities based on a fixed annual price is recognized in equal monthly amounts as earned.

Revenue on contracts with clients based on the recovery of costs plus a percentage markup or recovery of costs plus a fixed management fee is recognized at the time such costs are incurred.

Revenue for additional work for clients outside the scope of the operations and maintenance contract, such as capital repairs on equipment, is recognized when the costs are incurred, and normally includes a pre-determined markup on cost.

(d) Financial Instruments

A financial instrument is an asset that will ultimately be settled in cash.

All financial instruments have been valued at cost, which approximates fair value.

The financial instruments consist of cash and short-term investments, accounts receivable, investments receivable, bond portfolio, term deposits, loans receivable, accounts payable and accrued liabilities, and employee future benefits.

A Statement of Remeasurement Gains and Losses has not been prepared because all financial instruments are valued at cost and there are no changes in fair value to record.

Notes to Financial Statements

December 31, 2013

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

2. INVESTMENTS RECEIVABLE FOR WATER AND WASTEWATER FACILITIES

These investments represent the outstanding principal portion of amounts receivable from clients for capital expenditures undertaken by the Agency on their behalf, and recoverable operating costs, if any, not billed.

The investments receivable are supported by agreements that bear interest at rates between 4.25% and 10.52%. Scheduled principal repayments of the investments are as follows:

<i>(12 Months Beginning January)</i>	<i>(in thousands of dollars)</i>
2014	920
2015	709
2016	578
2017	573
2018	227
Thereafter	74
	3,081
Less: Current portion	[920]
	2,161

Notes to Financial Statements

December 31, 2013

2. INVESTMENTS RECEIVABLE FOR WATER AND WASTEWATER FACILITIES (cont'd)

In August of 1999, the Agency entered into a loan agreement to finance the construction of a water pipeline, which was completed in May 2000. The outstanding loan balance including accumulated interest was \$18.6 million at December 31, 2005. The Agency has recognized the loan as fully impaired and accordingly the loan amount of \$18.6 million has been reflected in an allowance for loan impairment.

Other than as described in this note, there are no other provisions established for investment receivables.

3. FINANCIAL INSTRUMENTS

(a) Cash and Short-Term Investments

The Agency has \$62.9 million invested in bank balances, term deposits and a bond portfolio as follows:

	<i>(in thousands of dollars)</i>
Bank Balances	14,881
Short term bonds (coupon rates 2.24% to 10%)	5,083
Term deposits due within a year (Interest rates 1.87%-2.27%)	<u>19,241</u>
Cash and Short-Term Investments	39,205
Term deposits due within two years (Interest rates 1.98%-1.99%)	<u>23,719</u>
	<u>62,924</u>

The fair value of the bank balances and term deposits approximates carrying value and the fair value of the short-term bond portfolio is \$4.968 million.

Notes to Financial Statements

December 31, 2013

3. FINANCIAL INSTRUMENTS (cont'd)

(b) Credit Risk

The maximum exposure to credit risk consists of the total of cash and short-term investments, accounts receivable, investments in term deposits, investments receivable and loans receivable.

The Agency is exposed to low credit risk because receivables are due from municipalities and payment is usually collected in full. Credit rating reviews are performed for non-municipal clients. All bank balances and short-term investments are held by large Canadian chartered banks.

A breakdown of the accounts receivable from municipalities and other customers is as follows:

	<i>(in thousands of dollars)</i>
0-60 days	21,095
61-90 days	266
91-120 days	118
121-150 days	126
More Than 151 days	1,008
Accounts Receivable (Gross)	22,613
Allowance for Doubtful Accounts January 1, 2013	[360]
Increase in Allowance	[191]
Allowance for Doubtful Accounts December 31, 2013	[551]
Total Net Accounts Receivable Municipalities and Other Customers	22,062

Notes to Financial Statements

December 31, 2013

3. FINANCIAL INSTRUMENTS (cont'd)

(c) Cash Flow Risk

The Agency has extended a \$120 million loan to Ontario Infrastructure and Lands Corporation with a variable interest rate set at four basis points below the average monthly Canadian Dollar Offered Rate. It also has term deposits and bank balances that are sensitive to the prevailing interest rates. As a result, it is exposed to a cash flow risk related to the fluctuations in interest rates.

(d) Other

The Agency is exposed to low risk for electricity and chemical costs because most of the contracts are structured to pass these costs through to the customer.

Other than as described in these notes, the Agency is not exposed to any additional currency, liquidity or other price risk on its financial instruments.

4. TANGIBLE CAPITAL ASSETS

[in thousands of dollars]

	Cost	Accumulated Amortization	Net December 31, 2013	Net December 31, 2012
Computer Software	3,780	1,040	2,740	2,110
Information Systems	3,655	2,497	1,158	1,577
Furniture and Fixtures	157	56	101	61
Automotive Equipment	5,232	3,902	1,330	2,425
Computer Hardware	5,300	2,334	2,966	2,861
Machinery and Equipment	645	241	404	423
Leasehold Improvements	377	90	287	285
	19,146	10,160	8,986	9,742

The Board has approved capital expenditures of up to \$14.7 million from fiscal 2012 to 2018 to modernize the Agency's information technology infrastructure.

Notes to Financial Statements

December 31, 2013

5. LEASE COMMITMENTS

Annual lease payments under operating leases for rental of office equipment, premises and vehicles in aggregate are as follows:

	<i>(in thousands of dollars)</i>
2014	1,643
2015	1,607
2016	1,510
2017	1,355
2018	1,077
Thereafter	1,098
	8,290

6. NET ASSETS

When the Agency was first established, the opening net assets were received from the Province of Ontario in the form of the book value of net assets in excess of obligations assumed.

Subsequent adjustments to the opening balance relate to legal costs that were agreed to prior to the establishment of the Agency.

7. CONTINGENCIES

(a) Litigation

The Agency is the defendant in a number of lawsuits. Most of these claims are covered by insurance after the application of a deductible, ranging from \$5,000 to \$100,000, depending on when the event giving rise to the claim occurred and the nature of the claim. The outcome of the lawsuits cannot be determined at this time.

Notes to Financial Statements

December 31, 2013

7. CONTINGENCIES (cont'd)

(b) Letters of Credit

The Agency has a line of credit with the Royal Bank of Canada for \$10.0 million. This line of credit has been used to provide letters of credit to municipalities in accordance with the terms of their operations and maintenance agreements. As of December 31, 2013, nothing has been drawn on the letters of credit.

8. RELATED PARTY TRANSACTIONS

(a) Non-Pension Employee Future Benefits

The Agency is responsible for its accrued legislated severance, unpaid vacation, and workers compensation obligations.

The costs of these employee future benefits obligations have been estimated at \$16.0 million (2012 - \$13.6 million) of which \$3.1 million (2012 - \$2.7 million) has been classified as current liability. The amount charged to the income statement in 2013 was \$3.6 million (2012 - \$1.8 million) and is included in salaries and benefits expense in the Statement of Operations and Changes in Net Assets.

Included in employee future benefits obligation is an estimated workers compensation obligation in the amount of \$3.3 million (2012 - \$2.4 million). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board (WSIB) as at December 31, 2012.

It is management's opinion that the balance at December 31, 2013 will not be materially different. Adjustment to the estimated WSIB obligation cumulative balance, if any, will be made in the year the updated balance is provided by WSIB.

The cost of other post-retirement, non-pension employee benefits is paid by the Province and therefore is not included in the financial statements.

Notes to Financial Statements

December 31, 2013

8. RELATED PARTY TRANSACTIONS (cont'd)

(b) Pension Plan

The Agency's full-time employees participate in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU-PF), which are defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU-PF, determines the Agency's annual payments of the funds. As the sponsors are responsible for ensuring that the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the agency. The Agency's annual payments of \$4.3 million (2012 – \$4.0 million), are included in salaries and benefits in the Statement of Operations and Change in Net Assets.

(c) Other

As a result of the relationship of the Agency with the Province, the following related party transactions exist:

- (i) The Agency received revenue of \$2.4 million (2012 – \$2.5 million) from the Ontario Infrastructure and Lands Corporation for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients.
- (ii) The Agency received revenue of \$2.4 million (2012 – \$2.8 million) from the Ministry of the Environment for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients. In addition, the Agency received \$0.1 million (2012 – \$0.3 million) for the Emergency Preparedness Funding.
- (iii) The Agency received revenue of \$0.9 million (2012 – \$0.5 million) from the Ministry of the Northern Development and Mines for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients.
- (iv) The Agency has a \$120 million loan receivable with Ontario Infrastructure and Lands Corporation, as described in note 3c.
- (v) The Agency relies on the Province to process its payroll and administer its benefits, and to obtain some internal audit and legal services. The Province absorbs some of these administrative costs.
- (vi) The Agency has a \$1.5 million (2012 – \$1.4 million) accounts payable to the Ministry of the Environment for rent proceeds it collects for a property, net of realty taxes paid, managed on behalf of the Ministry.

Ontario Educational Communications Authority

Management's Responsibility for Financial Statements

The accompanying financial statements of the Ontario Educational Communications Authority have been prepared in accordance with Canadian public sector accounting standards 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 26, 2014.



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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. The Internal Audit Department independently evaluates the effectiveness of these internal controls on a periodic basis and reports its findings to management and to the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board reviews and approves the financial statements. The Audit Committee of the Board meets periodically with management, Internal Audit, and the Office of the Auditor General of Ontario to discuss audit, internal control, accounting policy, and financial reporting matters.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Independent Auditor's Report, which appears on the following page, outlines the scope of the Auditor General's examination and opinion.

On behalf of Management:

A handwritten signature in blue ink, appearing to read 'Lisa de Wilde'.

Lisa de Wilde
Chief Executive Officer



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Educational Communications Authority
and to the Minister of Education

I have audited the accompanying financial statements of the Ontario Educational Communications Authority, which comprise the statement of financial position as at March 31, 2014 and the statement of operations, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Educational Communications Authority as at March 31, 2014 and the results of its operations, changes in net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Gary Peall, CPA, CA, LPA
Deputy Auditor General

Toronto, Ontario
June 26, 2014

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Financial Statements

Statement of Financial Position

As of March 31, 2014

(\$000s)	2014	2013
Assets		
Current Assets		
Cash and cash equivalents (note 3)	20,482	18,023
Accounts receivable (note 3)	2,326	1,111
Prepaid expenses	671	649
Inventories	143	148
	23,622	19,931
Broadcast rights and production costs (note 7)	19,926	18,236
Investments held for Capital Renewal (note 5)	5,271	5,642
Net Capital Assets (note 6)	12,458	13,808
Total Assets	61,277	57,617
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	8,978	10,148
Deferred revenue (note 8)	2,414	2,023
	11,392	12,171
Deferred capital contributions (note 9)	10,868	12,794
Employee future benefits (note 4)	20,520	19,597
Asset retirement obligation (note 6)	173	368
	31,561	32,759
Net Assets		
Invested in broadcast rights and production costs	19,924	18,233
Invested in capital assets	6,668	6,242
Internally restricted (note 13)	1,821	-
Unrestricted	(10,089)	(11,788)
	18,324	12,687
Total Liabilities and Net Assets	61,277	57,617

Commitments and Contingencies (notes 15 and 17)
See accompanying Notes to Financial Statements.

On behalf of the Board:

Chair 

Director 

Financial Statements

Statement of Operations

For the year ended March 31, 2014

(\$000s)	2014	2013
Revenues		
Government operating grants (note 10)	40,046	43,069
Independent Learning Centre (note 16)	13,188	12,964
Other earned revenue (note 12)	7,476	7,443
Bequest (note 13)	1,821	-
Government and corporate project funding (note 11)	189	905
Amortization of deferred capital contributions (note 9)	1,813	2,526
	64,533	66,907
Expenses		
Content and programming	18,451	23,634
Technical and production support services	12,802	13,762
Independent Learning Centre (note 16)	11,319	11,548
Management and general expenses	6,475	6,905
Cost of other earned revenue (note 12)	2,550	3,152
Amortization of capital assets and accretion expense (note 6)	3,530	3,482
Employee future benefits (note 4)	3,769	4,316
	58,896	66,799
Excess of revenues over expenses	5,637	108

See accompanying Notes to Financial Statements

Financial Statements

Statement of Changes in Net Assets

For the year ended March 31, 2014

(\$000s)

2014

	Invested in Broadcast Rights and Production Costs	Invested in Capital Assets	Internally Restricted	Unrestricted	Total
Balance, beginning of year	18,233	6,242	-	(11,788)	12,687
Excess/(deficiency) of revenues over expenses	(6,543)	(1,720)	-	13,900	5,637
Invested in assets during the year	8,234	2,146	-	(10,380)	-
Interfund transfers (note 13)	-	-	1,821	(1,821)	-
Balance, end of year	19,924	6,668	1,821	(10,089)	18,324

(\$000s)

2013

	Invested in Broadcast Rights and Production Costs	Invested in Capital Assets	Unrestricted	Total
Balance, beginning of year	16,497	6,081	(9,999)	12,579
Excess/(deficiency) of revenues over expenses	(6,944)	(1,369)	8,421	108
Invested in assets during the year	8,679	1,530	(10,210)	-
Balance, end of year	18,233	6,242	(11,788)	12,687

See accompanying Notes to Financial Statements

Financial Statements

Statement of Cash Flows

For the year ended March 31, 2014

(\$000s)	2014	2013
Operating Activities		
Excess of revenues over expenses	5,637	108
Add/(deduct) non-cash items:		
Amortization of capital assets	3,725	4,104
Drawdown of asset retirement obligation	(195)	(622)
Amortization of deferred capital contributions	(1,813)	(2,526)
Amortization of broadcast rights and production costs	6,544	6,994
Employee future benefits	923	1,530
Loss on disposal of capital assets	3	411
Net changes in non-cash working capital:		
Accounts receivable	(1,215)	(65)
Inventories	5	(5)
Prepaid expenses	(22)	195
Deferred revenue	391	(619)
Accounts payable and accrued liabilities	(1,170)	1,194
Cash provided by operating activities	12,813	10,699
Capital transactions		
Broadcast rights additions	(8,234)	(8,680)
Proceeds from disposal of capital assets	11	54
Capital asset additions	(2,389)	(1,679)
Cash applied to capital transactions	(10,612)	(10,305)
Investing and financing transactions		
Current year's deferred capital contributions	258	159
Cash provided by investing and financing activities	258	159
Net increase in cash position during the year	2,459	553
Cash and cash equivalents, beginning of year	18,023	17,470
Cash and cash equivalents, end of year	20,482	18,023

See accompanying Notes to Financial Statements

Financial Statements

Notes to Financial Statements

For the year ended March 31, 2014

1. AUTHORITY AND MANDATE

The Ontario Educational Communications Authority (the "Authority") is a Crown Corporation of the Province of Ontario that was created in June 1970 by the Ontario Educational Communications Authority Act. In accordance with the Act, the Authority's main objective is to initiate, acquire, produce, distribute, exhibit or otherwise deal in programs and materials in the educational broadcasting and communications fields. The Authority is licenced by the Canadian Radio-television and Telecommunications Commission ("CRTC") to broadcast English-language educational television programs. The broadcasting licence is subject to renewal by the CRTC and the current licence is for the period September 1, 2008 to August 31, 2015.

The Authority is a registered charitable organization which may issue income tax receipts for contributions. As a Crown Corporation of the Province of Ontario, the Authority is exempt from income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements of the Authority have been prepared by management in accordance with Canadian Public Sector Accounting Standards for Government Not-for-Profit Organizations.

(b) Inventories held for consumption

Inventories held for consumption, consisting of maintenance supplies and media tapes, are valued at cost where cost is determined on a first-in-first-out basis, net of an allowance for obsolescence.

(c) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Capital assets are amortized on a straight line basis over the following terms beginning the year following acquisition:

Capital Assets

Building	30 years
Transmitters	17 years
Transmitter Monitoring Equipment	7 years
In House Technical Equipment	7 years
Leasehold Improvements	5 years
Computer Equipment	5 years
Office Furniture and Fixtures	15 years
Office Equipment	10 years
Vehicles	5 years
Computer Software	3-5 years

The Authority reviews the carrying amounts of its capital assets on an annual basis. When a capital asset no longer has any long-term service potential, the Authority will recognize an expense (write-down) equal to the excess of its net carrying amount over any residual value.

Financial Statements

(d) Revenue Recognition

1. The Authority follows the deferral method of accounting for grants and contributions whereby restricted grants, contributions and bequests are recognized as revenue in the year in which the related expenses are incurred. Unrestricted grants, contributions and bequests are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.
2. Revenue from grants and contributions restricted for the purchase of capital assets is deferred and amortized over the same period of use as the related capital asset.
3. Revenue from the licensing of program material is recognized when the program material is delivered.
4. Individual donations are recorded on a cash basis. Contributions from corporate sponsors are recognized equally over the period the sponsorship program is delivered by the Authority.
5. Revenue from sponsorship is recognized when the content is broadcast or webcast.
6. Student fees for courses offered by the Independent Learning Centre (ILC) are recognized as revenue at the time of enrolment. Registration fees for General Education Development (GED) are recognized at the time the test is taken by the registrants.

(e) Employee Future Benefits

The Authority accrues its obligations under employee defined benefit pension plans and the related costs, net of plan assets. The following policies have been adopted:

1. The cost of pension benefits and other post-retirement benefits is determined by independent actuaries based on management's best estimate assumptions using the projected benefits method prorated on service.
2. Past service costs and any transitional asset or obligation are amortized over the expected average remaining service period of active plan members.
3. Actuarial gains/(losses) are recognized and amortized over the expected average remaining service period of active plan members.
4. The expected return on plan assets is based on the fair value of plan assets.

(f) Broadcast Rights and Production Costs

Broadcast rights and production costs are accounted for as follows:

- Current events and network promotion programs produced by the Authority are expensed in the year the costs are incurred.
- All other programs produced by the Authority and programs licensed under co-production, pre-buy and acquisition contracts are recorded at cost less accumulated amortization. Amortization is calculated on a straight line basis over the following periods:
 - Program licence acquired: term of contract
 - Program produced by the Authority: four years

Financial Statements

(g) Financial Instruments

The Authority's financial instruments are accounted for as follows:

- Cash and short-term investments, including those held for capital renewal, are measured at amortized cost.
- Accounts receivable are stated at amortized cost.
- Accounts payable and accrued liabilities are stated at cost.

(h) Asset Retirement Obligation

Liabilities are recognized for statutory, contractual or legal obligations, associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the asset. The obligations are initially measured at fair value, determined using present value methodology, and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is amortized on the same basis as the related asset and the discount accretion is included in determining the results of operations. The Authority recognizes a liability for future decommissioning of its transmitter facilities.

(i) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian public sector accounting standards requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Items requiring the use of significant estimates include retirement benefit obligations and useful life of capital assets and broadcast rights. Actual results could differ from those estimates.

(j) Prepaid Expenses

Prepaid expenses include, property tax, cleaning, hydro, software support and other prepaids and are charged to expense over the period the Authority is expected to benefit from the expenditure.

(k) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

3. FINANCIAL INSTRUMENTS

Cash and cash equivalents

The Authority's cash equivalents consist of short-term, high-grade Canadian dollar investments. These investments mature within 365 days and had an average yield of 1.6% (2013 – 1.8%).

Accounts receivable

(\$000s)	2014	2013
ILC earned revenue, donations, sales and licensing, tower rentals and transmitter maintenance fees	1,492	496
HST rebate	784	460
Private sector funding	-	3
Others	50	152
	2,326	1,111

Financial Statements

Operating line of credit

As part of its financial arrangements, the Authority negotiated a demand revolving line of credit with CIBC. The maximum available credit under the facility is \$1 million (2013 - \$1 million). The line of credit is unsecured and bears interest at the bank's prime lending rate. As at March 31, 2014, no amount (2013 - \$0) was outstanding under the facility.

Risk disclosures

(a) Liquidity risk:

Liquidity risk is the risk that the Authority will not be able to meet its cash flow obligations as they fall due. The Authority manages its liquidity risk by monitoring its operating requirements and prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. It is management's opinion that the Authority is not exposed to significant liquidity risk.

(b) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Authority is exposed to credit risk arising from its accounts receivable. Given the amount of the Authority's accounts receivable and past experience regarding payments, management believes that the Authority is not exposed to significant credit risk.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Due to the short-term nature of the Authority's financial instruments, their carrying value approximate fair value and as a result management believes that the Authority is not exposed to significant interest rate risk.

(d) Foreign currency risk:

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Authority maintains a U.S. dollar bank account. Its balance was not large enough at any time during the year to expose the Authority to significant currency risks.

It is management's opinion that the Authority is not exposed to significant liquidity, credit, interest rate or currency risk.

4. EMPLOYEE FUTURE BENEFITS

The pension and other post-employment benefit plans have the following components:

(a) Registered pension plans:

- Main Pension Plan – Most employees of the Authority are members of this plan, which consists of three elements – a non-contributory, defined benefit, best average earnings and years of service element; a contributory, defined contribution element; and a non-contributory, defined contribution element.
- Executive Pension Plan – Executives are members of this non-contributory, defined benefit, best average earnings and years of service plan.

(b) Supplementary retirement plan:

- Certain employees are members of this unregistered and non-contributory plan which funds the portion of pension entitlements in excess of the maximum allowed for registered pension plans under the federal Income Tax Act.

The employee future benefits payable under the defined benefit plans are adjusted for inflation based on the consumer price index up to a maximum of 3% per year.

Financial Statements

(c) Post-employment benefits plan:

- The Authority offers post-employment benefits such as health care, dental care, and life insurance on a shared cost basis.

The most recent actuarial valuation for funding purposes of the registered defined benefit pension plans was as of January 1, 2014. The next valuation for funding purposes is no later than as of January 1, 2017.

Information about the Authority's pension and other benefit plans is presented in the following table.

(\$000s)	Registered Pension Plans		Supplementary Retirement Plan		Post-employment Benefit Plan		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Plan deficit as of January 1:								
Accrued benefit obligation	95,612	88,666	953	1,066	11,102	11,592	107,667	101,324
Fair value of plan assets	(93,146)	(83,530)	-	-	-	-	(93,146)	(83,530)
	2,466	5,136	953	1,066	11,102	11,592	14,521	17,794
Balance of unamortized actuarial (gains)/losses as of January 1	3,125	(53)	348	76	3,149	2,388	6,622	2,411
Contributions – Jan 1 to Mar 31	(538)	(538)	-	-	(85)	(70)	(623)	(608)
Employee future benefits Liability as at March 31	5,053	4,545	1,301	1,142	14,166	13,910	20,520	19,597

(\$000s)	Registered Pension Plans		Supplementary Retirement Plan		Post-employment Benefit Plan		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Expenses for the year:								
Defined benefit plan:								
Service cost (employer portion)	2,214	2,089	166	161	345	466	2,725	2,716
Amortization of actuarial (gains)/losses	25	219	(8)	(7)	(184)	(7)	(167)	205
Interest cost on accrued benefit obligation	5,282	5,149	45	37	435	486	5,762	5,672
Expected return on plan assets	(4,905)	(4,679)	-	-	-	-	(4,905)	(4,679)
Total defined benefit expense	2,616	2,778	203	191	596	945	3,415	3,914
Defined contribution plan	354	402	-	-	-	-	354	402
Total expenses	2,970	3,180	203	191	596	945	3,769	4,316
Contributions made to the plans:								
Pension plan contributions - Authority	2,462	2,497	44	6	-	-	2,506	2,503
Pension plan contributions - employees	873	918	-	-	-	-	873	918
Payments made from all the plans as of January 1:								
Pension benefits paid	4,693	4,328	-	-	-	-	4,693	4,328
Termination benefits paid	3,222	3,916	-	-	-	-	3,222	3,916

Financial Statements

The significant assumptions adopted in measuring the employee benefit obligations and pension expenses are as follows:

	Registered Pension Plans		Supplementary Retirement Plan		Post-employment Benefit Plan	
	2014	2013	2014	2013	2014	2013
Discount rate to determine the accrued benefit obligation	6.00%	6.00%	4.50%	3.70%	4.50%	3.70%
Discount rate to determine the benefit cost	6.00%	6.00%	3.70%	3.60%	3.70%	3.60%
Investment return	6.00%	6.00%	N/A	N/A	N/A	N/A
Pension indexation	2.50%	2.50%	2.50%	2.50%	N/A	N/A
Salary rate increase	3.50%	3.50%	3.50%	3.50%	N/A	N/A
Health cost rate increase	N/A	N/A	N/A	N/A	8.00%	8.00%
Dental cost rate increase	N/A	N/A	N/A	N/A	4.50%	4.50%
Average remaining service lifetime (years)	11	11-12	10	11	12	13

The health cost rate increase assumption is expected to decrease to 4.5% by 2023.

Defined benefit plan assets as at January 1 measurement date consisted of:

Percentage of Total Fair Value of Plan Assets

	2014	2013
Asset category		
Equity securities	56%	56%
Debt securities	39%	38%
Real estate fund	5%	6%

The actual investment return on pension plan assets was 16.1% in 2014 (2013 – 8.7%).

5. INVESTMENTS HELD FOR CAPITAL RENEWAL

To ensure that the Authority's technical capital assets keep pace with technological changes and can be maintained or replaced when needed, the Capital Renewal Fund was established in 1984. Up to fiscal 2008/09, the Authority set aside up to 2% of the funding received as contribution to the Capital Renewal Fund. Available funds are invested in short-term deposits maturing within 365 days that earned an average interest rate of 1.4% (2013 – 1.5%) during the fiscal year. The changes in the fund are as follows:

(\$000s)	2014	2013
Balance, beginning of year	5,642	6,566
Project expenses – Digital Over The Air	(446)	(1,013)
Interest earned	75	89
	5,271	5,642

Financial Statements

6. CAPITAL ASSETS AND ASSET RETIREMENT OBLIGATION

Capital assets consist of the following:

(\$000s)	2014			2013		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	186	-	186	186	-	186
Buildings	2,268	2,136	132	2,276	2,114	162
Transmitters	11,995	8,778	3,217	13,415	10,333	3,082
Transmitter monitoring equipment	3,102	2,432	670	3,046	2,327	719
In house technical equipment	22,136	18,107	4,029	24,058	18,582	5,476
Leasehold improvements	8,507	8,448	59	8,507	8,290	217
Computer equipment	5,931	4,290	1,641	5,467	3,909	1,558
Office furniture and fixtures	1,937	1,100	837	1,892	987	905
Office equipment	975	923	52	974	910	64
Vehicles	364	309	55	557	463	94
Computer software	2,884	1,304	1,580	2,227	882	1,345
Total	60,285	47,827	12,458	62,605	48,797	13,808

Amortization expense for the year was \$3,725,000 (2013 - \$4,104,000) and is included in Amortization of capital assets and accretion expense in the Statement of Operations.

Asset Retirement Obligation

The Authority recognized a liability for future decommissioning of its transmitter and low power repeat transmitter (LPRT) facilities which was required under their respective leases. In determining the fair value of its asset retirement obligations, the Authority discounted the associated cash flows at credit-adjusted risk free rates. The total undiscounted amount of the estimated future obligations is \$316,000 (2013 - \$368,000).

(\$000s)	2014	2013
Opening balance	368	990
Accretion expense	7	-
Retirement of LPRTs	(202)	(622)
Closing balance	173	368

Financial Statements

7. BROADCAST RIGHTS AND PRODUCTION COSTS

Broadcast rights and production costs consist of the following:

(\$000s)	2014			2013		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Broadcast rights and completed productions	43,203	26,375	16,828	34,311	19,831	14,480
Work in progress	3,098	-	3,098	3,756	-	3,756
	46,301	26,375	19,926	38,067	19,831	18,236

Amortization expense for the year was \$6,544,000 (2013 - \$6,994,000) and is included in Content and Programming expense.

8. DEFERRED REVENUE

(\$000s)	2014	2013
ILC – Ministry of Education grant and provincial project funding (note 16)	1,534	1,534
Bequest (note 13)	607	-
Transmitter tower rental and maintenance	135	147
Sponsorship revenue	83	278
Corporate project funding (note 11)	2	3
Other	53	61
	2,414	2,023

Expenditures related to the above deferrals, except for the bequest, have been budgeted for the 2015 fiscal year.

9. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent contributions received for the purchase of capital assets and are recorded as revenue (amortization of deferred capital contributions) in the Statement of Operations when the related capital assets are amortized. The changes in the deferred contributions balance are as follows:

(\$000s)	2014	2013
Deferred capital contributions, beginning of year	12,794	16,086
Capital assets funded by Ministry of Education grant		
Digital Over The Air project	258	159
Project funding deferred to next year		
Project funding – Digital Over The Air project (note 11)	75	521
Project funding deferred from prior year	(521)	(1,535)
Interest earned	75	89
Amortization of deferred capital contributions to revenue	(1,813)	(2,526)
Deferred capital contributions, end of year	10,868	12,794

The Canadian Radio-television and Telecommunications Commission (CRTC) required local television stations in certain areas to stop broadcasting in analog and start broadcasting in digital by August 31, 2011. The Authority received a total grant from the Ministry of Education in 2011 and 2012 of \$4.5 million to convert its transmitters into digital and decommission those medium/high power analog transmitter sites that were not required in the ongoing broadcast operation.

Financial Statements

10. GOVERNMENT OPERATING GRANTS

(\$000s)	2014	2013
Ontario Ministry of Education		
Base grant	38,446	40,469
Capital maintenance grant	1,600	1,600
One-time digital over the air transmission operations grant	-	1,000
	40,046	43,069

11. GOVERNMENT AND CORPORATE PROJECT FUNDING

(\$000s)	2014	2013
Provincial project funding		
Ministry of Education		
Digital Over The Air – Funding deferred to future year (note 9)	(75)	(521)
Deferred capital contributions	263	1,376
	188	855
Corporate project funding		
Funding deferred from prior year (note 8)	3	53
Funding deferred to future year (note 8)	(2)	(3)
	1	50
Total government and corporate project funding	189	905

12. OTHER EARNED REVENUE AND COST

(\$000s)	2014			2013		
	Revenue	Cost	Net Revenue	Revenue	Cost	Net Revenue
Individual and corporate donations	5,448	2,550	2,898	5,107	3,152	1,955
Revenue from OFECA (note 18)	-	-	-	61	-	61
Tower rental and transmitter maintenance	980	-	980	1,162	-	1,162
Interest income and foreign exchange gain and loss	396	-	396	454	-	454
Sales and Licensing	332	-	332	322	-	322
Property tax rebate program for charities	244	-	244	247	-	247
Asset disposal	11	-	11	54	-	54
Others	65	-	65	36	-	36
	7,476	2,550	4,926	7,443	3,152	4,291

Financial Statements

13. BEQUEST

During the year, The Authority received a significant bequest totalling \$2,428,000 from the estate of a TVO viewer. The donor stipulated in his will that 25% (\$607,000) of the bequest be applied toward *The Agenda* program. This restricted portion of the bequest is included in Deferred revenue in the Statement of Financial Position. Revenue will be recognized in future years when expenditures are incurred toward new projects associated with *The Agenda*.

The Authority has internally restricted the remaining 75% (\$1,821,000) of the bequest for new projects or enhancement of existing products or services as approved by the Board of Directors. This amount is recognized as Bequest revenue in the Statement of Operations and as Internally restricted Net Assets in the Statement of Financial Position.

14. EXPENSES

a) Allocated Expenses

The Authority allocates certain general expenses to major activities on the following bases:

Building cost – based on floor area occupied by the activity
Cost of mailing, shipping and printing – based on usage

Total general expenses allocated to major functional groups are as follows:

(\$000s)	2014	2013
Content and programming	1,683	1,639
Technical and production support services	1,093	1,068
Independent Learning Centre	657	662
Management and general	601	590
Cost of other earned revenue	89	110
	4,123	4,069

b) Expenses by Type

The Statement of Operations reports on expenses by activity. Expenses by type during the fiscal year are as follows:

(\$000s)	2014	2013
Salaries and wages	26,173	27,700
Employee benefits	4,473	8,221
Employee future benefits	3,769	4,316
Licences and other	5,323	6,052
Facilities	4,672	4,873
Transportation and Communication	1,929	2,172
Other services	7,897	8,620
Supplies and equipment	1,130	1,363
Amortization of capital assets and accretion expense	3,530	3,482
	58,896	66,799

Financial Statements

15. COMMITMENTS

The Authority has entered into operating leases covering transmission facilities, offices, warehouses and equipment. Future lease payments are as follows:

Year ending March 31 (\$000s)	Head Office Space	Others	Total
2015	1,362	901	2,263
2016	1,307	637	1,944
2017	1,307	336	1,643
2018	1,353	204	1,557
2019	1,385	-	1,385
2020 and beyond	12,035	-	12,035
	18,749	2,078	20,827

The lease of head office space expires on August 31, 2027.

16. THE INDEPENDENT LEARNING CENTRE

The ILC provides a wide range of distance education courses, in English and in French that allow adults to earn secondary school diploma credits, upgrade their basic skills, or study for personal development. It also supports children who may not be able to access elementary day school programs. The General Education Development testing is also available through the ILC.

Funding for these activities includes a grant from the Ministry of Education and ILC earned revenues. The portion of the grant that has been identified for specific projects is deferred until the related expenses have been incurred.

(\$000s)	2014	2013
Activities were funded by:		
Ministry of Education ILC grant	6,421	6,421
Homework Help project	4,000	2,900
Funding deferred from prior year (note 8)	1,534	2,319
Funding deferred to a future year (note 8)	(1,534)	(1,534)
ILC grant and project funding recognized	10,421	10,106
ILC earned revenues	2,767	2,858
Total ILC grant, project funding and earned revenue	13,188	12,964
Expenses during the year:		
Salaries and benefits	7,037	7,370
Transportation and communication	373	520
Services	2,848	2,555
Allocated general expenses (note 14)	657	662
Licences	249	304
Supplies, equipment and others	155	137
Total ILC expenses	11,319	11,548
ILC contribution to overhead	1,869	1,416

Direct expenses related to the funding deferred to a future year have been budgeted for the 2015 fiscal year.

Financial Statements

17. CONTINGENCIES

Contingencies refer to possible legal claims that have been made by or against the Authority, the ultimate outcome of which cannot be predicted with certainty. Management does not expect that the outcome of the claims against the Authority will have a material and adverse effect on its results and does not believe any provisions for losses are necessary at this time. No amounts have been recognized in the accounts for claims made by the Authority. Any settlements will be accounted for at the time of settlement.

18. RELATED PARTY TRANSACTIONS

The Authority is a Crown Corporation of the Province of Ontario and is therefore a related party to other organizations that are controlled by or subject to significant influence by the Province. Specifically, the Authority received revenue from Ontario school boards for Independent Learning Centre (ILC) course fees and sales of educational materials. These transactions were recorded at exchange amounts agreed to by the related parties.

Non-grant revenue received from related parties during the year are as follows:

(\$000s)	2014	2013
School boards	960	1,026
OFECA (note 12)	-	61
	960	1,087

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the basis of the financial statement presentation adopted in the current year.

Ontario Electricity Financial Corporation

Financial Statements

Responsibility for Financial Reporting

The accompanying financial statements of OEFC have been prepared in accordance with Canadian public sector accounting standards and are management's responsibility. 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 June 24, 2014.

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. The Ontario Internal Audit Division of the Ministry of Finance 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.

The Board is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee assists the Board in carrying out these responsibilities. The Audit Committee periodically meets with management, the internal auditors and the external auditors to deal with issues raised by them, and to review the financial statements before recommending Board approval.

The financial statements have been audited by the Auditor General of Ontario (the Auditor). The Auditor's responsibility is to express an opinion on whether OEFC's financial statements fairly present OEFC's financial position in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and his opinion.

On behalf of management:



Gadi Mayman
Vice-Chair and Chief Executive Officer



Ken Kandeepan
Chief Financial Officer

Auditor's Report



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Electricity Financial Corporation

I have audited the accompanying financial statements of the Ontario Electricity Financial Corporation, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Electricity Financial Corporation as at March 31, 2014, and the results of its operations, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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Toronto, Canada
June 24, 2014

A handwritten signature in dark ink, appearing to read 'Bonnie Lysyk'.

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

Ontario Electricity Financial Corporation
Statement of Financial Position

As at March 31, 2014 (\$ millions)

	2014	2013
ASSETS		
Cash and cash equivalents (Note 4)	\$ 7	\$ 974
Accounts receivable (Note 5)	653	573
Interest receivable	30	35
Due from Province of Ontario (Note 6)	3,865	3,266
Notes and loans receivable (Note 7)	13,055	13,047
	<u>\$ 17,610</u>	<u>\$ 17,895</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 8)	\$ 169	\$ 387
Interest payable	415	474
Debt (Note 9)	26,111	27,352
Power purchase contracts (Note 11)	696	939
	27,391	29,152
Contingencies and guarantees (Note 13)	—	—
UNFUNDED LIABILITY (Notes 1, 3, 12)	<u>\$ (9,781)</u>	<u>\$ (11,257)</u>

Approved on behalf of the Board:



Steve Orsini
Chair



Gadi Mayman
Vice-Chair and Chief Executive Officer

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation

Statement of Operations

For the year ended March 31, 2014 (\$ millions)

	2014	2013
REVENUE		
Debt retirement charge (Notes 1, 12)	\$ 954	\$ 939
Payments-in-lieu of tax (Notes 1, 12)	543	324
Interest	719	717
Power supply contract recoveries (Note 11)	1,296	1,323
Net reduction of power purchase contracts (Note 11)	243	263
Electricity sector dedicated income (Notes 6, 12)	599	516
Other	8	11
	<u>\$ 4,362</u>	<u>\$ 4,093</u>
EXPENSE		
Interest on debt	\$ 1,447	\$ 1,565
Power supply contract costs (Note 11)	1,296	1,323
Debt guarantee fee	136	135
Operating	7	6
	<u>2,886</u>	<u>3,029</u>
Excess of revenue over expense	1,476	1,064
Unfunded liability, beginning of year	(11,257)	(12,321)
Unfunded liability, end of year	<u>\$ (9,781)</u>	<u>\$ (11,257)</u>

See accompanying notes to financial statements.

Ontario Electricity Financial Corporation
Statement of Cash Flow

For the year ended March 31, 2014 (\$ millions)

	2014	2013
CASH FLOWS USED IN OPERATING ACTIVITIES		
Excess of revenue over expense	\$ 1,476	\$ 1,064
Adjustments for:		
Payments-in-lieu of tax (Notes 1, 12)	(175)	13
Net reduction of power purchase contracts (Note 11)	(243)	(263)
Electricity sector dedicated income (Notes 6, 12)	(599)	(516)
Other items	(144)	65
Cash provided from operations	\$ 315	\$ 363
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt issued	\$ 3,381	\$ 1,901
Long-term debt retired	(4,916)	(1,683)
Short-term debt issued, net	260	200
Note receivable repayment (advance), net	(7)	75
Cash provided from (required by) financing activities	(1,282)	493
Increase (decrease) in cash and cash equivalents	(967)	856
Cash and cash equivalents, beginning of year	974	118
Cash and cash equivalents, end of year	\$ 7	\$ 974
Interest on debt paid during the period and included in excess of revenue over expense	\$ 1,506	\$ 1,565

See accompanying notes to financial statements.

Notes to Financial Statements

1) Electricity Sector Reform

Effective April 1, 1999, pursuant to the *Electricity Act, 1998* (the Act), Ontario Hydro was continued as a corporation without share capital under the name "Ontario Electricity Financial Corporation" (OEFC). It is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

OEFC is a Crown agency whose objects include managing the former Ontario Hydro's non-utility generator (NUG) contracts; providing financial assistance to the successor corporations of Ontario Hydro; entering into financial and other agreements relating to the supply and demand management of electricity in Ontario; and managing the debt and administering the assets, liabilities, rights and obligations of Ontario Hydro not transferred to other successor entities.

These other successor entities are

- Ontario Power Generation (OPG), an electricity generation company;
- Hydro One, a regulated electricity transmission and distribution company;
- Independent Electricity System Operator (IESO), the regulated, independent system operator responsible for directing system operations and operating the electricity market; and
- Electrical Safety Authority (ESA), which performs a regulatory function related to electrical inspections.

On April 1, 1999, the respective business units, including assets, liabilities, employees, rights and obligations of the former Ontario Hydro were transferred to OPG and Hydro One (and their subsidiaries) and the IESO for \$8.5 billion, \$8.6 billion and \$78 million respectively in exchange for debt payable to OEFC. On the same day, the Province of Ontario (the Province) exchanged equity of \$5.1 billion and \$3.8 billion in OPG and Hydro One respectively for debt payable to OEFC.

The opening stranded debt of \$20.9 billion at April 1, 1999 was composed of \$38.1 billion in liabilities assumed from the former Ontario Hydro less the value of assets transferred to OEFC at April 1, 1999, including \$17.2 billion in notes receivable. After receipt of \$1.5 billion in loans receivable and other assets, the opening unfunded liability stood at \$19.4 billion. As at April 1, 1999, the present value of future payments-in-lieu (PIL) of taxes and electricity sector dedicated income was estimated at \$13.1 billion. Subtracting the \$13.1 billion from stranded debt of \$20.9 billion resulted in a difference of \$7.8 billion, known as residual stranded debt.

The OEFC debt, liabilities and associated financing costs will be repaid from interest on notes receivable from the Province and successor entities, and from dedicated electricity revenues in the form of PIL of corporate income and property taxes, and gross revenue charges made under the Act by the successor entities and municipal electric utilities. OEFC also receives the Debt Retirement Charge (DRC) paid by electricity consumers at a rate of 0.7 cents/kWh. The *Electricity Act, 1998*, allows for the DRC to be paid until the residual stranded debt is retired. The Ontario Financing Authority (OFA), an agency of the Province responsible for borrowing

and investing monies for the Province and other public bodies, provides day-to-day management services to OEFC.

On December 9, 2004, the *Electricity Restructuring Act, 2004* was passed, resulting in a combination of a fully regulated and competitive electricity sector with different generators receiving prices set through a variety of mechanisms. Electricity generated from OPG's nuclear and baseload hydro generation assets receive regulated prices, electricity from generators with existing or new contracts receive prices as determined by their contracts, while other generation receives prices set in the electricity spot market. The latter includes OPG's other hydro generation assets, that are not under supply contracts and that received spot market prices during 2013-14, but are prescribed for rate regulation effective July 1, 2014. Consumers pay a blend of these costs, including the pass-through of regulated prices for OPG's regulated plants, the full costs for existing and new contracts for generation and market prices for other generation facilities. The Act also created the Ontario Power Authority (OPA) to ensure an adequate long-term supply of electricity.

2) Summary of Significant Accounting Policies

Basis of Accounting

As OEFC is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards.

Net Debt Presentation

Beginning April 1, 2012, OEFC has adopted Section PS 1201, Financial Statement Presentation, reflecting the net debt model recommended by the Public Sector Accounting Board (PSAB). A statement of changes in net debt is not presented since this information is readily apparent. Due to the unique nature of the corporation, no budget figures have been provided.

Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurement uncertainty in these financial statements exists in the valuation of the power purchase contracts and payments-in-lieu of tax revenue and tax receivable. Estimates are based on the best information available at the time of preparation of the financial statements.

Revenue Recognition

Revenues are recognized in the period in which they are earned.

Debt

Debt is composed of short, medium and long-term bonds, notes and debentures. Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the hedge agreements. Other foreign currency debt, liabilities and assets are translated to Canadian dollars at year-end rates of exchange and, in accordance with Canadian public sector accounting standards, any exchange gains or losses are deferred and amortized over the remaining term to maturity.

Discounts, premiums and commissions arising from the issuance of debt or the acquisition of debt prior to maturity are deferred and amortized to operations over the life of the underlying debt. Unamortized debt issue costs are included in total debt.

Fees and other costs from debt related derivatives are deferred and amortized to operations over the life of the underlying debt. Unamortized amounts are classified under accounts payable and accrued liabilities.

Power Purchase Contracts

The liability for power purchase contracts was originally calculated by discounting estimated losses over the life of the contracts. Under the *Electricity Restructuring Act, 2004*, OEFC began receiving actual contract prices for power from electricity consumers, effective January 1, 2005, and no longer incurs losses on these power purchase contracts. At that time, the Ministry of Finance estimated that the bulk of the liability would be eliminated over 12 years as existing electricity contracts expire. As a result, the bulk of the liability is being amortized to revenue over that period.

3) Going Concern

OEFC is dependent on the Province to borrow funds to finance maturing debt and to cover any cash shortfalls in the Corporation, and on OPG repaying its outstanding notes receivable. It is also dependent on the government's long-term plan to defease the unfunded liability as described in Note 12.

4) Cash and Cash Equivalents

Cash and cash equivalents includes cash on deposit and highly liquid investments recorded at cost, which approximates current market value.

5) Accounts Receivable

Accounts receivable at March 31, 2014 is comprised of the following (\$ millions):

	2014	2013
Debt retirement charge	\$ 137	\$ 137
Payments-in-lieu of tax	401	236
Power supply contract recoveries	111	196
Other receivables	4	4
	\$ 653	\$ 573

6) Due from the Province

The Province has committed to dedicate the cumulative combined net income of OPG and Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries to OEFC. Under these arrangements, the Province can recoup all costs associated with its investments in electricity subsidiaries on a cumulative basis before any income can be recognized by OEFC. For the year ended March 31, 2014, OPG and Hydro One earned an aggregate amount of \$1,119 million (2013 – \$ 1,036 million). After deducting the Province's \$520 million interest cost of its investment in these subsidiaries, there remains an amount of electricity sector dedicated income of \$599 million (2013 – \$516 million) which increased the cumulative amount due from the Province to \$3,865 million.

7) Notes and Loans Receivable

(\$ millions)					
	Maturity Date	Interest Rate	Interest Payable	March 31, 2014	March 31, 2013
The Province	2039–2041	5.85	Monthly	\$ 8,885	\$ 8,885
OPG	2015–2042	2.96 to 6.33	Semi-Annually	3,965	3,945
IESO	2017	Variable/1.62	Monthly/ Semi-Annually	122	135
				12,972	12,965
Add: Loans receivable from NUGs				83	82
				\$ 13,055	\$ 13,047

OEFC has agreed with OPG and the IESO not to sell notes owing from these successor entities without their prior approval.

OEFC has agreed to provide OPG financing for new generation project development in the form of 10-year and 30-year notes on commercial terms and conditions. OEFC agreed to provide for up to \$1.6 billion in loans for the Niagara tunnel project and is providing up to \$700 million in support of OPG's investment in the Lower Mattagami project. Under these agreements, \$1,065 million was advanced for the Niagara Tunnel project, with no additional borrowing under that facility expected. There has been no borrowing to-date by OPG from OEFC for the Lower Mattagami project.

OEFC also agreed to provide to OPG a credit facility for up to \$500 million expiring on December 31, 2014 for general corporate requirements, including the definition phase of the Darlington refurbishment project. There has been no borrowing under this facility.

Set out below is a summary by year of maturity of OPG's debt to OEFC (\$ millions):

<u>Fiscal Year</u>	<u>Amount</u>
2014-15	\$ 300
2015-16	200
2016-17	320
2017-18	1,125
2018-19	260
2019-20	505
2020-21	420
2021-22	185
2022-23	130
2023-24	20
2040-41	150
2041-42	350
Total	\$ 3,965

In April 2014, OEFC refinanced a note receivable with the IESO, originally maturing on April 30, 2014 for an additional 3 years. The refinancing increased the principal outstanding from \$78.2 million as at March 31, 2014 to \$90 million as at April 30, 2014.

In April 2014, OEFC also extended the expiry date of its revolving credit facility to the IESO to April 30, 2017, and decreased the credit facility from \$110 million to \$95 million. The credit facility bears interest at a floating rate equal to the Province's cost of borrowing for a 30 day term plus 50 basis points. The facility will be used for liquidity purposes and to temporarily fund corporate requirements. At March 31, 2014, IESO had drawn \$44 million on the credit facility.

Loans receivable from NUGs at March 31, 2014 totalled \$83 million (2013 – \$82 million).

8) Accounts Payable and Accrued Liabilities

Accounts Payable and accrued liabilities at March 31, 2014 is comprised of the following (\$ millions):

	2014	2013
Power supply contract costs	\$ 118	\$ 289
Payments-in-lieu of tax refundable	40	82
Other liabilities	11	16
	\$ 169	\$ 387

9) Debt

Debt at March 31, 2014, is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

Currency (\$ millions)	Canadian Dollars	U.S. Dollars	Other Foreign	2014 Total	2013 Total
Maturing in:					
1 year	\$ 3,774	\$ 553	\$	\$ 4,327	\$ 6,297
2 years	1,950		83	2,033	2,686
3 years	2,493		493	2,986	2,033
4 years	1,645	295	179	2,119	2,975
5 years	482	74	167	723	2,119
1–5 years	10,344	922	922	12,188	16,110
6–10 years	8,438			8,438	5,888
11–15 years	2,519	–	–	2,519	2,635
16–20 years	850	–	–	850	929
21–25 years	1,204	–	–	1,204	1,192
26–50 years	1,007	–	–	1,007	582
	\$ 24,362	\$ 922	\$ 922	\$ 26,206	\$ 27,336
Debt issue costs				(95)	16
Total				\$ 26,111	\$ 27,352

The effective rate of interest on the debt portfolio was 5.47 per cent after considering the effect of derivative instruments used to manage interest rate risk (2013 – 5.70 per cent). The longest term to maturity is to June 2, 2045. Total foreign currency denominated debt at March 31, 2014 was \$1.8 billion, 100 per cent of which was fully hedged to Canadian funds (2013 – \$3.2 billion or 100 per cent). Bonds and notes payable are either held, or guaranteed as to principal and interest, by the Province as set out below:

	March 31, 2014			March 31, 2013		
(\$ millions)	Held by the Province	Guaranteed by the Province	Total	Held by the Province	Guaranteed by the Province	Total
Short-term debt	\$ 1,641	–	\$ 1,641	\$ 1,381	–	\$ 1,381
Current portion of long-term debt	2,038	648	2,686	3,939	977	4,916
Long-term debt	15,474	6,310	21,784	14,098	6,957	21,055
Total	\$ 19,153	\$ 6,958	\$ 26,111	\$ 19,418	\$ 7,934	\$ 27,352

Fair value of debt issued approximates amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing OEFC's debt, fair value is estimated

using discounted cash flows and other valuation techniques and is compared to public market quotations where available. These estimates are affected by the assumptions made concerning discount rates and the amount and timing of future cash flows.

The estimated fair value of OEFC debt at March 31, 2014, was \$30.5 billion (2013 – \$32.5 billion). This is higher than the book value of \$26.1 billion (2013 – \$27.3 billion) because current interest rates are generally lower than the interest rates at which the debt was issued and because of exchange rate movements. The fair value of debt does not reflect the effect of related derivative contracts.

10) Risk Management and Derivative Financial Instruments

OEFC operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost-effective manner. A variety of strategies are used including the use of derivative financial instruments (“derivatives”). Derivatives are financial contracts, the value of which is derived from underlying instruments. OEFC uses derivatives for the purpose of hedging and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which OEFC agrees with another party to exchange cash flows based upon one or more notional amounts during a specified period. This allows OEFC to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options.

Foreign exchange or currency risk is the risk foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, derivative contracts are used to convert foreign currency cash flows into Canadian dollar denominated cash flows. The current policy allows unhedged foreign currency debt principal, net of foreign currency holding, to reach a maximum of 5.0 per cent of total debt. At March 31, 2014, the actual unhedged level was 0.0 per cent of total debt (2013 – 0.0 per cent).

Net interest rate resetting risk is the exposure to changes in interest rates. Exposure to rate changes is reduced by entering into derivative contracts that convert floating interest payments to fixed interest payments. The current policy allows unhedged floating rate debt and fixed rate debt maturing within the next 12 months, net of liquid reserves, to reach a maximum of 35.0 per cent of total debt.

At March 31, 2014, net interest rate resetting risk as a percentage of total debt was 21.4 per cent (2013 – 28.0 per cent).

Liquidity risk is the risk OEFC will not be able to meet its current short-term financial obligations. As explained in Note 3, OEFC is dependent on the Province to borrow funds to finance maturing debt and to cover any cash shortfalls in the Corporation, and on OPG repaying its outstanding notes receivable.

The table below presents a maturity schedule of OEFC’s derivatives, by type, outstanding at March 31, 2014, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Derivative Portfolio Notional Value**As at March 31, 2014 (\$ millions)**

Maturity in years						6-10	Over 10		
Fiscal year	2015	2016	2017	2018	2019	Years	Years	Total	March 2013
Cross-currency swaps	\$ 553	\$ 82	\$ 718	\$ 637	\$ 203	\$	–	\$ 2,193	\$ 3,944
Interest rate swaps	2,462	223	1,123	476	682	100	\$ 653	5,719	6,510
Forward foreign exchange contracts	516	–	–	–	–	–	–	516	757
Total	\$ 3,531	\$ 305	\$ 1,841	\$ 1,113	\$ 885	\$ 100	\$ 653	\$ 8,428	\$ 11,211

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which OEFC has an unrealized gain. The table below presents the credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2014.

Credit Risk Exposure (\$ millions)	March 31, 2014	March 31, 2013
Gross credit risk exposure	\$ 225	\$ 343
Less: Netting	(170)	(343)
Net credit risk exposure	\$ 55	\$ 0

OEFC manages its credit risk exposure from derivatives by, among other ways, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. In addition, OEFC enters into contractual agreements ("master agreements") that provide for termination netting and, if applicable, payment netting with most of its counterparties. Gross credit risk exposure represents the loss OEFC would incur if every counterparty to which OEFC had credit risk exposure were to default at the same time, and the contracted netting provisions were not exercised or could not be enforced. Net credit risk exposure is the loss including the mitigating impact of these netting provisions.

11) Power Supply Contracts

Power supply contracts include both power purchase contracts and power supply support agreements. Power purchase contracts and related loan agreements were entered into by the former Ontario Hydro with NUGs located in Ontario. As the legal continuation of the former Ontario Hydro, OEFC is the counterparty to these contracts. The contracts, expiring on various dates to 2048, provide for the purchase of power at prices in excess of future market price. Accordingly, a liability was recorded at \$4,286 million on a discounted cash-flow (DCF) basis when the former Ontario Hydro was continued as OEFC on April 1, 1999.

Under legislated reforms to the electricity market, OEFC began receiving actual contract prices for power from ratepayers effective January 1, 2005, and no longer incurs losses on these contracts going forward. At that time, the Ministry of Finance estimated the bulk of the liability to be eliminated over 12 years as existing electricity contracts expire. As a result, the Corporation is amortizing the bulk of the liability to revenue over that period.

In addition, effective January 1, 2009, OEFC entered into a support contract, the Contingency Support Agreement (CSA), with OPG whereby OPG agreed to maintain the reliability and availability of Lambton and Nanticoke coal-fired stations following implementation of a greenhouse gas emissions-reduction strategy. Under the contract, OEFC agreed to ensure OPG would recover the actual costs of operating the stations after implementing this strategy. Any costs to OEFC under this agreement are fully recovered from ratepayers. As at December 31, 2013, OEFC triggered an early termination clause in the CSA to reflect the advanced closure of these plants by one year to the end of 2013. OPG is allowed to recover actual costs that cannot reasonably be avoided or mitigated, during the period from the early shut down date until December 31, 2014, consistent with the original end date of the CSA.

During the year ended March 31, 2014, OEFC's costs under power supply contracts totalled \$1,296 million, including purchases of power from NUGs of \$997 million (2013 – \$1,026 million) and OPG support contract costs of \$299 million (2013 – \$297 million).

Statement of Liability for Power Purchase Contracts
As at March 31, 2014 (\$ millions)

	2014	2013
Liability, beginning of year	\$ 939	\$ 1,202
Amortization	(243)	(263)
Liability, end of year	\$ 696	\$ 939

12) Unfunded Liability

Pursuant to the Act and consistent with the principles of electricity restructuring, the government has a long-term plan to defease the unfunded liability from the electricity sector. The plan includes cash flows from the following sources:

Notes receivable from the Province of \$8.9 billion, OPG of \$3.4 billion, Hydro One of \$4.8 billion and IESO for \$0.1 billion, for a total of \$17.2 billion as at April 1, 1999 as a result of the transfer of assets to successor companies;

PIL of corporate income and property taxes, and gross revenue charges made by OPG, Hydro One and municipal electric utilities;

DRC paid by ratepayers based on the consumption of electricity; and

Electricity Sector Dedicated Income Consistent with the government's commitment to keep electricity income in the electricity sector, the cumulative combined net income of OPG and

Hydro One in excess of the Province's interest cost of its investment in its electricity subsidiaries is allocated to help retire OEFC's debt.

13) Contingencies and Guarantees

OEFC is involved in various legal actions arising out of the ordinary course and conduct of business, some of which relate to the former Ontario Hydro prior to the establishment of OEFC on April 1, 1999. For some of these claims, OPG or Hydro One is required to indemnify OEFC for any liability arising from the claim. For claims on which OEFC is provided no indemnification and where the outcome and ultimate disposition of these legal actions is not determinable at this time, the settlements, if any, will be reflected in the period in which settlement occurs.

Subject to a \$10 million deductible, OEFC has agreed to indemnify Hydro One in respect of any adverse claim to title to any asset, right or thing transferred or intended to be transferred to the company at April 1, 1999, and any failure of the transfer order to transfer such assets, rights or things and with respect to payment to or from or other dealing with any equity account of Ontario Hydro, including certain related litigation. The Province has guaranteed any liability arising from these indemnifications. A similar indemnity provided to OPG was terminated as of May 31, 2006.

OEFC is contingently liable under guarantees given to third parties that have provided long-term financing to certain independent power producers in connection with the power purchase agreements described in Note 11. These guarantees total approximately \$9 million at March 31, 2014 (2013 – \$14 million).

14) Related Party Transactions

In the normal course of operations, OEFC has transactions with the following related parties. All material transactions have been disclosed in the notes to the financial statements. Each of the following entities is included in the Province's financial statements:

- a) Province of Ontario
- b) Ontario Power Generation Inc.
- c) Hydro One Inc.
- d) Independent Electricity System Operator
- e) Ontario Financing Authority

15) Subsequent Event

On April 23, 2014, the government announced that it intends to remove the debt retirement charge (DRC) from residential users' electricity bills, after December 31, 2015. The residential rate class accounts for about a third of electricity load subject to the DRC with the remainder of electricity load used by commercial, institutional and industrial consumers.

16) Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period.

Ontario Energy Board

Financial Statements

Management's Responsibility

The Ontario Energy Board's management is responsible for the integrity and fair presentation of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards. The preparation of financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods.

The Board maintains systems of internal accounting controls designed to provide reasonable assurance that reliable financial information is available on a timely basis and that the Board assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed and approved by the Board's Management Committee. In addition the financial statements have been audited by the Auditor General of Ontario, whose report follows.

A handwritten signature in black ink, appearing to read 'Julie Mitchell', written over a horizontal line.

Julie Mitchell
Vice President, People Culture & Business Solutions
July 30, 2014



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Energy Board

I have audited the accompanying financial statements of the Ontario Energy Board, which comprise the statement of financial position as at March 31, 2014 and the statements of operations and net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Energy Board as at March 31, 2014 and the results of its operations, its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
July 30, 2014

Gary Peall, CPA, CA, LPA
Deputy Auditor General

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Ontario Energy Board

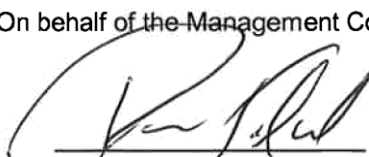
STATEMENT OF FINANCIAL POSITION

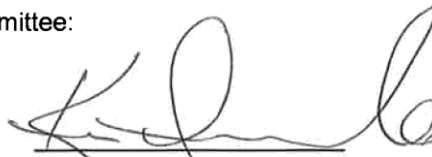
As of March 31, 2014

	2014	2013
	\$	\$
ASSETS		
Current Assets:		
Cash	5,445,468	5,432,863
Investments- current (note 9)	0	3,779,151
Accounts receivable (note 9)	583,197	640,739
Regulatory process costs to be assessed	1,203,693	1,116,931
Deposits and prepaid expenses	375,153	255,290
Total Current Assets	7,607,511	11,224,974
Long-term Assets:		
Investments- long-term (note 9)	4,992,918	978,652
Capital assets (note 5)	3,660,389	4,448,355
Total Long-term Assets	8,653,307	5,427,007
TOTAL ASSETS	16,260,818	16,651,981
LIABILITIES		
Current Liabilities:		
Deferred revenue (note 3c)	398,876	223,927
Accounts payable and accrued liabilities (note 3b)	6,670,019	6,706,653
Total Current Liabilities	7,068,895	6,930,580
Long-term Liabilities:		
Deferred revenue related to capital assets (note 3d)	2,154,092	2,680,093
Deferred rent inducement (note 8)	1,944,599	2,282,771
Pension liability (note 6b)	314,503	333,047
Total Long-term Liabilities	4,413,194	5,295,911
TOTAL LIABILITIES	11,482,089	12,226,491
Operating Reserve (note 4)	3,347,318	3,353,611
Net Assets:		
Internally Restricted Net Assets (note 7)	1,431,411	1,071,879
TOTAL LIABILITIES, RESERVE AND NET ASSETS	16,260,818	16,651,981

See accompanying notes to financial statements

On behalf of the Management Committee:


 Rosemarie Leclair
 Chair


 Ken Quesnelle
 Vice-Chair

Ontario Energy Board

STATEMENT OF OPERATIONS AND NET ASSETS

Year Ended March 31, 2014

	2014	2013
	\$	\$
REVENUES		
Recovery of Costs:		
General cost recovery (note 3a)	32,487,601	32,721,002
Regulatory process costs	1,455,041	1,437,254
Amortization of deferred revenue related to capital assets	1,112,702	1,241,269
Total Revenues from Recovery of Costs	35,055,344	35,399,525
Other Revenues:		
Administrative penalties and interest (note 7)	369,547	142,849
Licence fees	362,500	350,120
Interest income	166,050	87,816
Miscellaneous income	1,592	6,685
Total Other Revenues	899,689	587,470
TOTAL REVENUES	35,955,033	35,986,995
EXPENSES		
Salaries and benefits (note 3b & 6)	26,090,752	26,453,846
Consulting and professional	3,748,892	3,296,949
Premises	2,541,453	2,543,258
Information technology	668,249	864,582
Meetings, training and travel	569,815	425,043
Publications, media and publishing	436,299	898,927
Office and administration	427,339	452,868
Amortization of capital assets paid by Board	1,112,702	1,241,269
TOTAL EXPENSES	35,595,501	36,176,742
EXCESS(DEFICIENCY) OF REVENUES OVER EXPENSES	359,532	(189,747)
Net Assets, beginning of period	1,071,879	1,261,626
NET ASSETS, end of period (note 7)	1,431,411	1,071,879

See accompanying notes to financial statements

Ontario Energy Board

STATEMENT OF CASH FLOWS

Year Ended March 31, 2014

	2014	2013
	\$	\$
Net inflow (outflow) of cash related to the following activities:		
OPERATING		
Assessment billed	33,249,252	31,821,220
Regulatory process costs revenue	1,455,041	1,437,254
Other revenues	899,689	587,470
Expenses	(35,595,501)	(36,176,742)
	8,481	(2,330,798)
Adjustment for Non-cash Expenses:		
Amortization of capital assets paid by Board	1,112,702	1,241,269
Amortization of leasehold improvements paid by Landlord	261,964	261,965
	1,374,666	1,503,234
Changes in Non-cash Working Capital:		
Accounts receivable	57,542	607,989
Regulatory process costs to be assessed	(86,762)	(313,151)
Deposits and prepaid expenses	(119,863)	(36,446)
Operating reserve	(6,293)	(69,172)
Accounts payable and accrued liabilities	(36,634)	2,004,395
Pension liability	(18,544)	(21,327)
Deferred rent inducement	(338,172)	(338,172)
	(548,726)	1,834,116
Net Cash from Operating Activities	834,421	1,006,552
INVESTING		
Investments	(235,115)	(803,156)
Net Cash Used in Investing Activities	(235,115)	(803,156)
CAPITAL		
Capital asset purchases	(586,701)	(591,186)
Net Cash Used in Capital Activities	(586,701)	(591,186)
NET CHANGE IN CASH	12,605	(387,790)
Cash, beginning of period	5,432,863	5,820,653
Cash, end of period	5,445,468	5,432,863

See accompanying notes to financial statements

Ontario Energy Board
Notes To The Financial Statements
March 31, 2014

1. Nature of the Corporation

The Ontario Energy Board (the "Board") is the regulator of Ontario's natural gas and electricity industries. The Board also provides advice on energy matters referred to it by the Minister of Energy and the Minister of Natural Resources.

Effective August 1, 2003, and pursuant to the *Ontario Energy Board Act, 1998*, (the "OEB Act") the Board was continued as a corporation without share capital empowered to fully recover its costs from natural gas and electricity industry participants.

As an agent of Her Majesty in right of Ontario, the Board is exempted from federal and provincial income taxes under the Income Tax Act.

The Board is classified as a government not for profit organization for accounting purposes.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Public Sector Accounting Standards (PS), which constitutes generally accepted accounting principles for government not-for-profit organizations in Canada. The Board has chosen to use the standards for government not-for-profit organizations that include sections PS 4200 to PS 4270.

Significant accounting policies followed in the preparation of these financial statements include:

a) Revenue Recognition

Revenues received in the 2013-14 fiscal year that relate to subsequent years are not recognized as revenue and are deferred. Recognition of revenue is matched to the expenses of the Board as follows:

- General cost recovery under S.26 of the OEB Act related to the expenses of the Board is recognized as revenue to the extent that they are in excess of regulatory process costs (S.30), amortization of deferred revenue related to capital assets, and other revenues. Revenue assessed in excess of actual cost in 2013-14 is deferred and recognized in fiscal year 2014-15 and referred to as a true-up (note 3c).
- Revenue from administrative penalties assessed against market participants under s. 112.5 of the OEB Act is recognized in the year the Board accepts an assurance of voluntary compliance or issues the enforcement order for the amount identified, provided that the order is not under appeal and a reasonable estimate can be made and collection is reasonably assured. If the order is appealed, revenue will be recognized in the year in which all rights of appeal are

Ontario Energy Board
Notes To The Financial Statements
March 31, 2014

exhausted and the order becomes final. Revenue from administrative penalties is not used to reduce the costs assessed under the Board's Cost Assessment Model, but used to support activities relating to consumer education, outreach and other activities in the public interest. Both administrative penalties and their related expenses are reflected in the Statement of Operations and Net Assets and are reflected as internally restricted net assets summarized in note 7 of the financial statements.

- Deferred revenue related to capital assets is recognized as revenue on the same basis that the underlying capital assets are amortized. Revenue related to capital asset expenditures is deferred because they have been billed in advance (note 3d).
- Regulatory process costs are recognized as revenue when related expenses are incurred.
- Other revenues are recognized when received and receivable.

b) Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following the acquisition, as follows:

Office furniture and equipment	5 years
Computer equipment and related software	3 years
Audio visual equipment	3 years
Leasehold improvements	over remainder of lease

c) Financial Instruments

The Board's financial instruments are initially measured at their fair value and subsequently measured in one of the following categories (i) fair value or (ii) cost or amortized cost. The Board uses fair value for the subsequent measurement of cash, accounts receivable, regulatory process costs to be assessed, accounts payable and accrued liabilities. The Board's short and long term investments are subsequently measured at amortized cost.

d) Use of Estimates

The preparation of financial statements in accordance with public sector accounting standards requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and recoveries for the year. Actual amounts could differ from these estimates.

Ontario Energy Board
Notes To The Financial Statements
March 31, 2014

e) Employee Pension Plans

The Board's full-time employees participate in the Public Service Pension Fund (PSPF) which is a defined benefit pension plan for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Board's annual payments to the Fund. Since the Board is not a sponsor of these funds, gains and losses arising from statutory actuarial funding valuations are not assets or obligations of the Board, as the sponsor is responsible for ensuring that the pension funds are financially viable. The Board's expense is limited to the required contributions to the Fund as described in note 6a.

The Board also manages a supplementary unfunded pension plan for a former Chair as described in note 6b. The Board accrues its obligations and the related cost under this supplemental unfunded pension plan. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method, prorated on management's best estimate assumptions.

3. Industry Assessments for 2013-14

During the 2013-14 fiscal year, the natural gas and electricity industry participants were assessed estimated costs for the 2013-14 fiscal year based on budgeted amounts. Amounts assessed in excess of actual costs are a true-up and are reported as current deferred revenue. The 2013-14 true-up will be used to reduce the 2014-15 fiscal year assessment. The calculation of the general cost recovery, true-up and deferred revenue are outlined in the following tables.

a) 2013-14 General cost recovery

Salaries and benefits (note 3b)	\$26,090,752
Consulting and professional	\$3,748,892
Premises	\$2,541,453
Information technology	\$668,249
Meetings, training and travel	\$569,815
Publications, media and publishing	\$436,299
Office and administration	\$427,339
Amortization of capital assets paid by the Board	\$1,112,702
Total expenses	\$35,595,501
Regulatory process costs, amortization of deferred revenue related to capital assets, other revenues and expenses related to administrative penalties revenues	(\$3,107,900)
General cost recovery at March 31, 2014	\$32,487,601

Ontario Energy Board
Notes To The Financial Statements
March 31, 2014

b) Accounts Payable and Accrued Liabilities Estimate

The accounts payable and accrued liabilities amount includes one-time accruals in respects of restructuring costs. These liabilities are recorded in salaries and benefits as shown in note 3a.

c) 2013-14 Current Deferred Revenue (2013-14 True-up)

General cost recovery (note 3a)	\$32,487,601	
2013-14 Capital expenditures paid by the OEB	\$586,701	
Total assessment (actual)		\$33,074,302
Total assessment (budget)		\$33,473,178

<u>2013-14 Current Deferred Revenue (2013-14 True-up)</u>	<u>\$398,876</u>

d) 2013-14 Deferred Revenue Related to Capital Assets

Revenues related to capital asset expenditures are deferred because they have been billed in advance with the exclusion of leasehold improvements paid by the landlord, which were not included in the assessments. As part of the leasehold inducements included in the lease agreement, the landlord paid for \$3,540,400 of leasehold improvements on behalf of the Board since the start of the lease on January 1, 2005.

Net book value of capital assets 2013-14 (note 5)	\$ 3,660,389
Net book value of leasehold improvements paid by landlord (note 5)	\$(1,506,297)

<u>2013-14 Deferred revenue related to capital assets</u>	<u>\$2,154,092</u>

Ontario Energy Board
Notes To The Financial Statements
March 31, 2014

4. Operating Reserve

As part of its self-financing status, the Board established an operating reserve, which is adjusted on an annual basis. The primary objective of maintaining this reserve is to fund the Board's operations in the event of revenue shortfalls or unanticipated expenditures. It is to be used for cash flow management and to support working capital requirements.

The operating reserve was initially set at a maximum of 15% of the annual assessment. Based on the review of cash flow history, the Board has set the operating reserve to 10% of the current annual funding requirement. This operating reserve level is expected to be maintained in fiscal year 2014-15.

2013-14 Operating reserve

Operating reserve as at March 31, 2013	\$3,353,611
Adjustment to the operating reserve	\$(6,293)
Operating reserve as at March 31, 2014	\$3,347,318

The Board is not subject to any externally imposed reserve requirements.

5. Capital Assets

	Cost	Accumulated amortization	Net book value 2014	Net book value 2013
Office furniture and equipment	\$2,804,730	\$2,661,295	\$143,435	\$235,954
Computer equipment and related software	\$11,294,239	\$10,012,716	\$1,281,523	\$1,608,894
Audio visual equipment	\$895,490	\$873,873	\$21,617	\$11,361
Leasehold improvements paid by OEB	\$1,303,438	\$595,921	\$707,517	\$823,884
Leasehold improvements paid by Landlord	\$3,540,400	\$2,034,103	\$1,506,297	\$1,768,262
Total	\$19,838,297	\$16,177,908	\$3,660,389	\$4,448,355

Ontario Energy Board
Notes To The Financial Statements
March 31, 2014

6. Employee Future Benefits

a) The Board's contribution to the Public Service Pension Plan for the 2013-14 fiscal year was \$1,459,529 (2013 - \$1,484,106), and is included in salaries and benefits costs on the Statement of Operations and Net Assets.

b) The unfunded supplemental pension plan for a former Chair had an accrued total benefit obligation of \$314,503 (2013 - \$333,047) and an accrued benefit liability with respect to the Board of \$314,503 (2013 - \$333,047). The Board's related expense for the year was negative \$18,544 (2013 - negative \$21,327) and is reflected in salaries and benefits costs. No benefits were paid during the year (2013 - \$0). The significant actuarial assumptions adopted at March 31, 2014 included a discount rate of 2.75% (2013 - 2.50%).

c) The Board is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Province of Ontario, a related party.

7. Internally Restricted Net Assets

The internally restricted net assets at March 31, 2014 represent revenue from administrative penalties assessed against individual market participants under s. 112.5 of the *Ontario Energy Board Act, 1998*. According to the OEB Cost Assessment Model, revenue from administrative penalties will not be used to reduce payments under the general assessment. Revenue from administrative penalties plus any related interest revenue is internally restricted by the Management Committee to support activities relating to consumer education, outreach and other activities in the public interest.

The changes in internally restricted net assets are as follows:

Balance, beginning of the year		\$1,071,879
Administrative penalties issued in 2013-14	\$354,000	
Interest revenue from administrative penalties	\$15,547	
Administrative penalties and interest		\$369,547
Expenses incurred		(\$10,015)
Balance, end of the year		\$1,431,411

Subsequent to year end, the Board accepted Assurances of Voluntary Compliance from two separate companies totaling \$830,000. As per the Board's revenue recognition policy regarding administrative penalties (note 2a) the Board will recognize the \$830,000 administrative penalties revenue in fiscal year 2014-15.

Ontario Energy Board
Notes To The Financial Statements
March 31, 2014

8. Deferred Rent Inducement and Operating Lease Commitments

The Board entered into a lease commitment for its office space during the 2004-05 fiscal year, which included various lease inducements. Deferred rent inducement represents the benefit of operating lease inducements which are being amortized on a straight-line basis over 15 years, being the term of the lease.

The changes in deferred rent inducements are as follows:

	2014	2013
Balance, beginning of the year	\$2,282,771	\$2,620,943
Less: Amortization of deferred rent inducement netted against premises expense	\$(338,172)	\$(338,172)
Balance, end of the year	\$1,944,599	\$2,282,771

The minimum annual payments under the operating lease, expiring December 31, 2019 for the remaining 6 years and in aggregate are as follows:

March 31, 2015	\$2,606,020
March 31, 2016	\$2,796,328
March 31, 2017	\$2,884,629
March 31, 2018	\$2,977,345
March 31, 2019	\$3,074,696
December 31, 2019	\$2,362,811
Total	\$16,701,829

9. Financial Instruments

It is management's opinion that the Board is not exposed to significant interest rate, currency, credit or liquidity risks arising from its financial instruments.

Interest rate risk:

The Board's financial assets and liabilities are not exposed to significant interest rate risk. The Board has three Ontario Government bonds with maturities of September 2015, September 2016, and March 2017 and effective yields of 1.42%, 1.80% and 1.48% respectively. Cash balances earn interest at a rate of 1.15% (2013 – 1.15% to 1.25%). The average cash balance interest rate for the year was 1.15% (2013 – 1.23%).

A 25 basis point change in the interest rate would impact the Board's operating surplus by \$16,418 (2013 - \$17,700).

Ontario Energy Board
Notes To The Financial Statements
March 31, 2014

Currency risk:

The Board's exposure to currency risk is minimal as few transactions are in currencies other than Canadian dollars.

Credit risk:

The Board's exposure to credit risk is minimal as the Board's cash and Ontario Government bonds which have relatively short maturity spans are held with a leading Canadian bank. The Board also has minimal credit risk exposure in regard to regulatory process costs to be assessed and accounts receivable due to high historical collection rates. Below the accounts receivable aging is summarized:

	Current	+60 Days	+90 Days	Total
Regulatory process costs	\$97,818	\$9,768		\$107,586
General cost recovery		\$1,452		\$1,452
License fee prepayment	(\$1,000)	(\$800)		(\$1,800)
HST recovery	\$469,336			\$469,336
Interest receivable	\$6,623			\$6,623
Total	\$572,777	\$10,420		\$583,197

Liquidity risk:

The Board's exposure to liquidity risk is minimal as the Board has a sufficient cash balance to settle all current liabilities and all three Ontario Government bonds are readily convertible into cash at any time without penalty. As of March 31, 2014, the Board had a cash balance of \$5,445,468 (2013 - \$5,432,863) and all three Ontario Government Bonds totaling \$4,992,918 (2013 - \$4,757,803) to settle current liabilities of \$7,068,895 (2013 - \$6,930,580).

Ontario Energy Board
Notes To The Financial Statements
March 31, 2014

10. Related Party Transactions

The Province of Ontario is a related party as it is the controlling entity of the OEB. Therefore the IESO, OPA, OPG, Hydro One and multiple Provincial Government Ministries are related parties of the OEB, through the common control of the Province of Ontario. These transactions for the years ended March 31, 2014 have combined revenues of \$ 14,867,710 (March 31, 2013 \$14,517,752) the majority of these being general cost recoveries under Cost Assessment, and combined expenses of \$ 85,224 (March 31, 2013 \$89,243) the majority of these expenses are related to multiple Provincial Government Ministries. Related party transactions pertaining to employee future benefits are disclosed in note 6.

Ontario Financing Authority

Financial Statements

Responsibility for Financial Reporting

The accompanying Financial Statements of the OFA have been prepared in accordance with Canadian public sector accounting standards. The preparation of the Financial Statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The Financial Statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 13, 2014.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Risk Management Committee of the Board.

The Board, through the Audit and Risk Management Committee, is responsible for ensuring management fulfils its responsibilities for financial reporting and internal controls. The Audit and Risk Management Committee meets 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.

The Financial Statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the Financial Statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of management:



Gadi Mayman
Chief Executive Officer



Ken Kandeepan
Chief Financial Officer

Auditor's Report



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

**To the Ontario Financing Authority
and to the Minister of Finance**

I have audited the accompanying financial statements of the Ontario Financing Authority, which comprise the statement of financial position as at March 31, 2014, and the statements of operations, change in net assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Financing Authority as at March 31, 2014 and the results of its operations, changes in its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 13, 2014

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

ONTARIO FINANCING AUTHORITY
Statement of Financial Position
As at March 31, 2014

(in thousands of dollars)

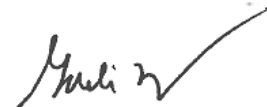
	2014	2013
FINANCIAL ASSETS		
Cash	\$ 12,083	\$ 11,272
Due from agencies & related parties (Note 6)	2,604	2,400
Due from the Province of Ontario	1,780	1,706
	16,467	15,378
LIABILITIES		
Accounts payable	1,780	4,090
Due to the Province of Ontario - Recoveries	1,329	1,272
Deferred revenue (Note 3)	1,747	1,924
	4,856	7,286
Net financial assets	11,611	8,092
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 2)	1,487	1,674
Prepaid expenses	260	250
	1,747	1,924
Accumulated surplus	\$ 13,358	\$ 10,016

See accompanying notes to financial statements.

Approved on behalf of the Board of Directors:



Steve Orsini
Chair



Gadi Mayman
Chief Executive Officer

ONTARIO FINANCING AUTHORITY**Statement of Operations**

For the year ended March 31, 2014

(in thousands of dollars)

	2014 Budget	2014 Actual	2013 Actual
REVENUE			
Cost recovery from the Province of Ontario (Note 4)	\$ 19,925	\$ 18,280	\$ 18,298
Cost recovery from Agencies & related parties (Note 6)	4,697	4,747	4,623
Amortization of deferred capital contributions (Note 3)	886	832	944
Interest revenue (Note 5)	2,665	3,342	4,011
	<u>28,173</u>	<u>27,201</u>	<u>27,876</u>
EXPENSES			
Salaries, wages and benefits	20,025	18,626	18,846
Interest on debt	-	-	1,043
Administrative and general	4,597	4,401	4,075
Amortization for tangible capital assets (Note 3)	886	832	944
	<u>25,508</u>	<u>23,859</u>	<u>24,908</u>
Operating surplus	2,665	3,342	2,968
Accumulated operating surplus at beginning of year	10,016	10,016	7,048
Accumulated operating surplus at end of year	<u>\$ 12,681</u>	<u>\$ 13,358</u>	<u>\$ 10,016</u>

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY

Statement of Change in Net Assets

For the year ended March 31, 2014

<i>(in thousands of dollars)</i>	2014 Budget	2014 Actual	2013 Actual
Operating Surplus	\$ 2,665	\$ 3,342	\$ 2,968
Acquisition of tangible capital assets (Note 3)	(800)	(645)	(617)
Amortization of tangible capital assets (Note 3)	886	832	944
Prepaid expenses	—	(10)	(250)
Change in net financial assets	2,751	3,519	3,045
Net financial assets at beginning of year	8,092	8,092	5,047
Net assets at end of year	\$ 10,843	\$ 11,611	\$ 8,092

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY**Statement of Cash Flow****For the year ended March 31, 2014***(in thousands of dollars)*

	2014	2013
Operating transactions		
Annual Surplus	\$ 3,342	\$ 2,968
Amortization of Tangible Capital Assets	832	944
Decrease in due from agencies & related parties	(204)	(251)
(Increase)/decrease in due from the Province	(74)	140
Decrease in Accounts Payable	(2,310)	(377)
Increase in prepaid expenses	(10)	(250)
Increase in recoveries due to the Province	57	125
Decrease in deferred revenue	(177)	(82)
Cash provided by operating transactions	1,456	3,217
Capital transactions		
Cash used to acquire tangible capital assets	(645)	(617)
Cash applied to capital transactions	(645)	(617)
Increase in cash	811	2,600
Cash at beginning of year	11,272	8,672
Cash at end of year	\$ 12,083	\$ 11,272

See accompanying notes to financial statements.

ONTARIO FINANCING AUTHORITY

Notes to Financial Statements

For the year ended March 31, 2014

BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency, of the Crown, on November 15, 1993, by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario ("the Province");
- manages the Provincial debt;
- provides financial and centralized cash management services for the Province;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies to borrow and invest money;
- acts at the direction of the Province in lending to certain public bodies;
- invests on behalf of some public bodies;
- with Ontario Power Generation Inc. (OPG), manages the investment activities of OPG's Used Fuel Segregated Fund and Decommissioning Segregated Fund.

In addition, the OFA's objects include:

- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

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

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: Because the OFA is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards.

Tangible capital assets: Tangible capital assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below.

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

Funding received from the Province and the Agencies for the acquisition of tangible capital assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the tangible capital assets.

Measurement uncertainty: The preparation of these financial statements requires management to make estimates that are based on the best information available at the time of preparation of the financial statements.

2. TANGIBLE CAPITAL ASSETS

The net book value (NBV) of tangible capital assets is as follows:

(in thousands of dollars)

	Cost	Accumulated Amortization	NBV March 31, 2014	NBV March 31, 2013
Furniture and equipment	\$ 1,065	\$ 1,039	\$ 26	\$ 115
Computer hardware	12,824	11,919	905	884
Leasehold improvements	1,808	1,252	556	675
Total	\$ 15,697	\$ 14,210	\$ 1,487	\$ 1,674

3. DEFERRED REVENUE

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

(in thousands of dollars)

	Tangible Capital Assets	Prepaid Expenses	Total
Balance, beginning of year	\$ 1,674	\$ 250	\$ 1,924
Additions	645	433	1,078
Amortization	(832)	—	(832)
Expensed in the current year	-	(423)	(423)
Balance, end of year	\$ 1,487	\$ 260	\$ 1,747

Amortization of \$832,000 represents the amortized amount of contributions received for the purchase of tangible capital assets. The \$423,000 expensed represents the amount allocated to the current year expenses from the prepaid expenses.

4. DEBT AND INVESTMENT MANAGEMENT FOR THE PROVINCE

The OFA manages debt amounting to \$295.8 billion, interim, as at March 31, 2014 (March 2013 – \$281.1 billion) and investments amounting to \$40.9 billion as at March 31, 2014 (March 2013 – \$44.8 billion) on behalf of the Province, including the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the *Ontario Nuclear Funds Agreement*. The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to set aside funds necessary to dispose of nuclear waste and used fuel and to decommission nuclear power stations. The agreement came into force on July 24, 2003.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2014 was \$18.3 million (March 2013 – \$18.3 million).

5. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in these financial statements.

Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating \$14.5 billion expiring from 2027 to 2040. Principal repayments received from public bodies by the OFA are forwarded to the Province. The interest rates charged to public bodies will generally be slightly higher than the rate charged on the advances from the Province to fund the loans ("the spread").

The OFA will generally retain a portion of the spread in order to recover the administrative costs of managing these loans. The spread retained by the OFA includes a cost recovery component and, where applicable, a proxy commercial interest rate spread. The inclusion of the proxy commercial spread results in an interest rate equivalent to what would be charged on the loan by a commercial lender and reflects the relative risk associated with the loan. During the year ended March 31, 2014, \$3.3 million in interest rate spread revenue was recognized (2013 – \$3.0 million) of which \$1.3 million is receivable at year end.

As at March 31, 2014, the principal amounts receivable by the OFA on behalf of the Province represent debentures and short term loans. In addition to the outstanding loans below, interest accrued on these loans amounted to \$95.0 million (March 2013 – \$89.5 million), of which \$93.7 million (2013 - \$88.4 million) will be flowed to the Province.

These are related party transactions, with the exception of those with the Corporation of the City of Windsor and the University of Ontario Institute of Technology.

(in thousands of dollars)

	March 31, 2014	March 31, 2013
Centennial Centre of Science and Technology	\$ 1,500	\$ 2,000
Colleges of Applied Art and Technologies	218,934	156,575
Corporation of the City of Windsor	13,097	15,906
Niagara Parks Commission	5,476	5,754
Ontario Infrastructure and Lands Corporation	25,000	73,000
Ontario Lottery and Gaming Corporation	32,279	92,466
Ontario Northland Transportation Commission	5,572	8,877
Ottawa Convention Centre Corporation	41,869	40,000
Royal Ontario Museum	35,507	37,843
School Boards	5,575,202	5,039,272
University of Ontario Institute of Technology	19,922	24,158
Total	\$ 5,974,358	\$ 5,495,851

Loans to Public Bodies by the Province:

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act, 1990*. The \$1.5 million (March 2013 – \$2.0 million) loan was made to fund the construction of the Agents of Change project, bears interest at 4.35 per cent and matures in March 2017.

Colleges of Applied Art and Technologies have been loaned \$218.9 million (March 2013 – \$156.6 million) for various campus projects including new and expanded student residences, computer equipment, parking facilities, and an energy saving capital project. These loans bear interest ranging from 1.81 per cent to 5.49 per cent and mature from 2015 to 2040.

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 a provincial division courthouse and city police headquarters. This is a 20 year loan bearing interest at 6.41 per cent and maturing in March 2021. The outstanding balance is \$13.1 million (March 2013 – \$15.9 million).

The Niagara Parks Commission, a Crown agency of the Province, operating under *Niagara Parks Act, 1990*, has been provided a loan of \$5.5 million (March 2013 – \$5.8 million) to finance additional capital costs incurred for the redevelopment of phase I of Table Rock House in Queen Victoria Park, Niagara Falls. This bears interest at 5.07 per cent and matures in April 2027.

The Ontario Infrastructure and Lands Corporation (OILC) is a Crown agency of the Province under the *Ontario Infrastructure and Lands Corporation Act, 2011* and has been provided a Revolving Credit Facility to a maximum amount of \$200 million maturing in June 2019. OILC has drawn \$25.0 million (March 2013 – \$73.0 million) bearing interest at rates ranging from 1.59 to 2.59 per cent.

The Ontario Lottery and Gaming Corporation (OLG) is a Crown agency of the Province under the *Ontario Lottery and Gaming Corporation Act, 1999*, and has been provided loans totaling \$32.3 million (March 2013 – \$92.5 million) to fund several projects, bearing interest at rates ranging from 2.32 to 2.93 per cent and maturing from May 2016 to January 2018.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. ONTC's total borrowing of \$5.6 million (March 2013 – \$8.9 million) matures from 2014 to 2031 and bears interest ranging from 4.90 to 6.29 per cent.

The Ottawa Convention Centre Corporation (OCC) is a Crown agency of the Province under the *Capital Investment Plan Act, 1993*, and has been provided a loan of \$41.9 million (March 2013 – \$40.0 million) for the purpose of providing term debt to finance part of the construction of the Ottawa Convention Centre. This is a 25 year loan, bears interest at 4.67 per cent and matures in September 2036. Pursuant to a directive signed by the Minister of Finance on November 2, 2012, the Province provided OCC with a repayment deferral of principal and interest up to five years. Interest continues to accrue over the five year deferral period. The outstanding amount includes capitalized interest of \$1.9 million.

The Royal Ontario Museum (ROM) is a Crown agency of the Province under a Special Act of the Ontario Legislature and has borrowed \$35.5 million (March 2013 – \$37.8 million) comprised of \$5.8 million at fixed rate 5.04 per cent and \$29.7 million at a floating rate currently at 2.54 per cent. All outstanding loans are scheduled to be repaid by March 2027.

School boards have been provided loans under various programs beginning in 2006. During the year ended March 31, 2014, school boards were provided with additional loans and made semi-annual blended payments of principal and interest, leaving the total outstanding amount at \$5,575.2 million (March 2013 – \$5,039.2 million). These loans bear interest ranging from 2.42 to 5.38 per cent and mature from 2019 to 2039.

The University of Ontario Institute of Technology (UOIT) is a corporation established under the *University of Ontario Institute of Technology Act, 2002*. The Province has provided a 5 year term loan of \$19.9 million (March 2013 – \$24.2 million) bearing an interest rate at 2.77 per cent and matures in October 2017.

6. INVESTMENT AND DEBT MANAGEMENT FOR RELATED PARTY AGENCIES

- a. The OFA provides investment management services to the following related party agencies. Fees are aimed at recovering OFA costs and are charged on the basis of either the market or par value of the assets under management based on a range of up to 0.20 per cent.

Deposit Insurance Corporation of Ontario	Ontario Immigrant Investor Corporation
Northern Ontario Heritage Fund	Ontario Infrastructure and Lands Corporation
Ontario Capital Growth Corporation	Ontario Trillium Foundation
Pension Benefits Guarantee Fund	

Investments managed on behalf of these entities totaled \$3,154 million at March 31, 2014 (March 2013 – \$2,900 million).

- b. The OFA provides debt management services to the following related party agencies on a cost recovery basis:

Ontario Electricity Financial Corporation (OEFC)

The OFA provides financial services and advice on a cost recovery basis to OEFC and manages its debt portfolio of approximately \$26.1 billion (March 2013 – \$27.3 billion).

Ontario Infrastructure and Lands Corporation (OILC)

The OFA provides financial services and advice on a cost recovery basis to OILC and manages its debt of approximately \$5.8 billion (March 2013 – \$5.1 billion) including loans from the Province, a provincial agency and third parties.

- c. The total costs recovered and receivables outstanding for related party agencies at March 31, 2014 are set out below:

(in thousands of dollars)

	March 31, 2014	March 31, 2013
Costs Recovered:		
OEFC	\$ 3,541	\$ 3,471
OILC	946	936
Investment Management	260	216
Total	\$ 4,747	\$ 4,623
Receivables:		
OEFC	\$ 1,000	\$ 980
OILC	236	234
Investment Management	105	59
Interest Rate Spread (Note 6)	1,263	1,127
Total	\$ 2,604	\$ 2,400

7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The main risks that the Authority's financial instruments are exposed to are credit risk, liquidity risk and market risk. These risks are limited to the financial instruments reflected on the statement of financial position and do not extend to the financing provided to various public bodies, disclosed in note 6 to the financial statements.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Authority is exposed to credit risk relating to the collection of receivables from the Province of Ontario. The risk is minimal as most of the receivables are from the Province of Ontario.

The risk of not collecting the receivables related to OEFC, OILC and others is also considered to be minimal.

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its cash flow obligations as they fall due. The Authority's exposure to liquidity risk is minimal as all operating and capital expenses are cost recovered from the Province of Ontario.

Market risk

The market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Authority. The Authority is not exposed to market risk.

8. FUTURE EMPLOYEE BENEFITS

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

9. COMMITMENTS AND CONTINGENCIES**Lease Commitment:**

Future minimum annual rental payments for premises under operating leases are as follows:

(in thousands of dollars)

	March 31, 2014
2015	1,947
2016	1,947
2017	1,947
2018	487
Total	\$6,328

Committed Credit Facilities:

At the direction of the Province, the OFA has committed to finance a number of public bodies for which funds have not yet been advanced. The details are as follows:

The Deposit Insurance Corporation of Ontario (DICO) was provided a maximum \$400 million revolving credit facility to ensure DICO's capacity to address systematic difficulties in the credit union system or the failure of large institutions that require resources above those in the Deposit Insurance Reserve Fund (DIRF) which is currently valued at approximately \$169.5 million. All principal and interest is required to be repaid by December 31, 2029. As of March 31, 2014, DICO has not utilized this credit facility.

The Ontario Power Authority (OPA) was provided a maximum \$975 million credit facility to primarily fund the Regulated Price Plan variance account. This credit facility will expire on December 31, 2016. As at March 31, 2014, OPA has not drawn any funds from this facility.

Contingencies:

At March 31, 2014, there were no claims under which the OFA would be financially liable. The Province continues to guarantee the term deposits issued by the Province of Ontario Savings Office prior to 2003.

**ONTARIO FRENCH-LANGUAGE EDUCATIONAL
COMMUNICATIONS AUTHORITY (OFLECA)****MANAGEMENT'S REPORT**

Management of the Ontario French-language Educational Communications Authority (OFLECA) is responsible for the financial statements, the notes to the financial statements and all other financial information contained in this financial report.

Management has prepared the financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations. In order to achieve the objective of fair presentation in all material respects, reasonable estimates and professional judgements were used. Management believes the financial statements present fairly the OFLECA's financial position as at March 31, 2014, as well as the results of its operations and its cash flows for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, Management has developed and maintains a system of internal controls designed to provide reasonable assurance that the OFLECA's assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of financial statements.

The Board of Directors is responsible for ensuring that the OFLECA's Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out its responsibility for review of the financial statements principally through the Audit Committee. The Audit Committee meets with Management and the external auditors to discuss the results of audit examinations and financial reporting matters and to satisfy itself that each party is properly discharging its responsibilities. The external auditors have full access to the Audit Committee with or without the presence of Management.

The financial statements for the year ended March 31, 2014 have been audited by Marcil Lavallée, Chartered Professional Accountants, Licensed Public Accountants, the independent external auditors appointed by the members of the OFLECA. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their professional opinion on the financial statements.



Glenn O'Farrell
Chief Executive Officer



Lisa Larsen, CPA, CA
Chief Financial Officer, Interim



INDEPENDENT AUDITOR'S REPORT

To the Directors of
Ontario French-language Educational Communications Authority

We have audited the accompanying financial statements of the Ontario French-language Educational Communications Authority (OFLECA), which comprise the statement of financial position as at March 31, 2014, and the statements of operations, changes in net assets and cash flows for the year then ended, as well as a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario French-language Educational Communications Authority as at March 31, 2014, as well as the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

A handwritten signature in black ink, reading "Marcil Lavalée". The signature is written in a cursive style with a large initial 'M' and a stylized 'L'.

Chartered Professional Accountants, Licensed Public Accountant

Ottawa, Ontario

June 13, 2014

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

STATEMENT OF FINANCIAL POSITION

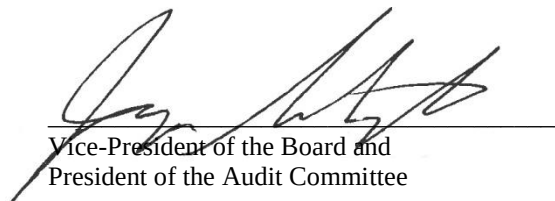
MARCH 31, 2014

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,479,071	\$ 8,463,660
Accounts receivable (Note 4)	1,612,603	6,312,176
Prepaid expenses	1,511,440	595,480
	11,603,114	15,371,316
RESTRICTED CASH (Note 5)	5,833,750	4,511,415
BROADCASTING RIGHTS (Note 6)	15,305,959	15,934,253
IN-HOUSE PROGRAMMING (Note 7)	13,347,142	8,502,475
ASSET – EMPLOYEE FUTURE BENEFITS (Note 8)	598,100	160,900
CAPITAL ASSETS (Note 9)	11,380,979	9,679,981
	46,465,930	38,789,024
	\$ 58,069,044	\$ 54,160,340
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 10)	\$ 4,261,450	\$ 4,926,724
Deferred contributions (Note 11)	4,707,481	3,646,107
	8,968,931	8,572,831
LIABILITY – EMPLOYEE FUTURE BENEFITS (Note 8)	1,617,200	1,344,300
DEFERRED CONTRIBUTIONS – BROADCASTING RIGHTS (Note 12)	17,718,402	16,632,090
DEFERRED CONTRIBUTIONS – IN-HOUSE PROGRAMMING (Note 13)	13,347,142	8,502,475
DEFERRED CONTRIBUTIONS – CAPITAL ASSETS (Note 14)	12,482,511	15,173,786
	45,165,255	41,652,651
	54,134,186	50,225,482
NET ASSETS		
Internal Restriction		
- TFO Fund (Note 5)	1,519,008	1,519,008
Unrestricted	2,415,850	2,415,850
	3,934,858	3,934,858
	\$ 58,069,044	\$ 54,160,340

Contractual obligations (note 21) and Contingencies (note 22)

ON BEHALF OF THE BOARD


President of the Board


Vice-President of the Board and
President of the Audit Committee

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 2014

	2014	2013
REVENUE		
Contributions		
- Operating grants (Note 15)	\$ 7,929,456	\$ 11,109,247
- Funding for special projects (Note 16)	1,384,637	1,107,926
- Corporate and government (Note 17)	2,688,479	2,748,568
Other revenue (Note 18)	3,324,449	3,324,310
Amortization of deferred contributions		
- Broadcasting rights (Note 12)	6,199,978	5,551,486
- In-house programming (Note 13)	4,245,377	2,141,071
- Capital assets (Note 14)	3,237,385	3,212,745
	29,009,761	29,195,353
EXPENSES		
Content and programming	7,282,895	7,774,783
Production and technology	3,521,900	4,926,597
Administration	4,319,646	4,843,275
Amortization of broadcasting rights (Note 12)	6,199,978	5,551,486
Amortization of in-house programming (Note 13)	4,245,377	2,141,071
Amortization of capital assets (Note 14)	3,237,385	3,212,745
Employee future benefits	202,580	745,853
	29,009,761	29,195,810
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ -	\$ (457)

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED MARCH 31, 2014

	Internal Restriction – TFO Fund		Unrestricted		2014 Total	2013 Total
BALANCE, BEGINNING OF YEAR	\$	1,519,008	\$	2,415,850	\$ 3,934,858	\$ 3,935,315
Excess (deficiency) of revenue over expenses		-		-	-	(457)
BALANCE, END OF YEAR	\$	1,519,008	\$	2,415,850	\$ 3,934,858	\$ 3,934,858

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2014

	2014	2013
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ -	\$ (457)
Adjustments for:		
Amortization of broadcasting rights	6,199,978	5,551,486
Amortization of in-house programming	4,245,377	2,141,071
Amortization of capital assets	3,237,385	3,212,745
Employee future benefits	(164,300)	316,800
Amortization of deferred contributions – broadcasting rights	(6,199,978)	(5,551,486)
Transfer – deferred contributions broadcasting rights	(468,862)	(371,668)
Amortization of deferred contributions – in-house programming	(4,245,377)	(2,141,071)
Amortization of deferred contributions – capital assets	(3,237,385)	(3,212,745)
Transfer – deferred contributions capital assets	(4,568,204)	(759,458)
	(5,201,366)	(814,783)
Net change in non-cash working capital items (Note 3)	4,179,713	(2,993,603)
Programming grant	7,755,152	7,043,422
In-house programming grant	9,090,044	7,395,596
Capital grant	5,114,314	5,771,124
	20,937,857	(16,401,756)
INVESTING ACTIVITIES RELATED TO CAPITAL ASSETS AND INTANGIBLE ASSETS		
Acquisition of broadcasting rights	(5,571,684)	(6,613,917)
Acquisition of in-house programming	(9,090,044)	(7,395,596)
Acquisition of capital assets	(4,938,383)	(1,277,318)
	(19,600,111)	(15,286,831)
INVESTING ACTIVITY		
Variation in restricted cash	(1,322,335)	242,518
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,411	1,357,443
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,463,660	7,106,217
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 8,479,071	\$ 8,463,660

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

1. STATUTE AND NATURE OF OPERATIONS

The Ontario French-language Educational Communications Authority (the Authority) is a Crown corporation created by a decree on April 1, 2007. The Authority, an independent French language broadcasting network, is a charitable organization and therefore exempt from income tax.

The Authority's main objectives are to provide French language educational broadcasting and telecommunications to the general public, to provide for the francophone community's interests and needs, and to develop the knowledge and skills of this community.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations (PSAS-GNFPO). The Authority has elected to apply Section SP4200 series for government-not-for-profit organizations. The accounting policies are set out below:

Basis of presentation

The financial statements have been prepared using the historical cost basis.

Management estimates

The preparation of financial statements in compliance with the PSAS-GNFPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual amounts could differ from these estimates. Areas of key estimation include amortization periods of the capital assets and broadcasting rights and actuarial estimation of post-employment benefits.

Revenue recognition

Contributions

The Authority follows the deferral method of accounting for contributions.

Unrestricted contributions are recognized as revenue in the statement of operations when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions which are, explicitly or implicitly, externally restricted for the purchase of capital assets or broadcasting rights or internally developed television broadcasting subject to amortization are deferred in the statement of financial position and recognized as revenue in the statement of operations on the same basis and over the same periods as the related assets.

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Contributions which are, explicitly or implicitly, externally restricted for specific expenses to be incurred in future years are deferred in the statement of financial position and recognized as revenue in the statement of operations in the period in which the related expenses are incurred.

Subscriptions

Revenue from signal subscriptions is recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Interest income

Interest income is recognized as revenue when earned.

Contributions received in the form of supplies and services

The Authority accounts for the contributions received in the form of supplies and services when the fair value of these contributions can be reasonably estimated, and when the Authority should have obtained the supplies and services for its regular operations in another way.

Financial instruments

Measurement of financial instruments

The Authority initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions.

The Authority subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments in equity instruments that are quoted in an active market, which are measured at fair value. Changes in fair value are recognized in operations.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment. The amount of the write-down is recognized in operations. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in operations.

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Transaction costs

The Authority recognizes its transaction costs in operations in the period incurred. However, financial instruments that will not be subsequently measured at fair value are adjusted by the transaction costs that are directly attributable to their origination, issuance or assumption.

Cash and cash equivalents

The Authority's policy is to present unrestricted cash and investments with a term equal to or less than three months in cash and cash equivalents.

Broadcasting rights, in-house programming and production costs

Broadcasting rights, in-house programming and production costs are accounted for as follows:

In-house programming

In-house programming is defined as internally developed television broadcasting. Completed and in-progress programming having a future economic value through rebroadcasting and the use of web-based interactive tools is accounted for on an individual basis at cost, deducted from accumulated amortization and cumulative loss in value. Cost includes the cost of supplies and services and the portion of the labour and other direct expenses related to programming. Programming costs are recognized in the statement of operations with the television and new media services expense based on their expected amortization period or when programming is sold or unusable.

Broadcasting rights and production costs

Broadcasting rights and productions under co-production, pre-purchase and acquisition contracts are accounted for at cost. Broadcasting rights are amortized over a period of four years on a straight-line basis.

Capital assets

Capital assets are recorded at cost, net of accumulated amortization.

Amortization is calculated using the straight-line method over the estimated useful lives of assets as follows:

	Periods
Technical equipment	7 years
Computer equipment	5 years
Office furniture and equipment	15 years
Leasehold improvements	Duration of the lease

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Write-down of capital assets, broadcasting rights and in-house programming

When capital assets, broadcasting rights and in-house programming no longer contribute to the Authority's ability to provide services, the excess of the carrying amount of such assets over their residual value, if any, is recognized in the statement of operations.

Employee future benefits

The Authority accrues its obligations under the employee defined benefit plans, net of the fair value of plan assets. In order to do so, the Authority has adopted the following policies:

- The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service. This determination incorporates management's best estimate of future salary levels, discount rate, other cost escalation, retirement ages of employees and other actuarial factors;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- An actuarial gain (loss) arises from the difference between the actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligations. Actuarial gains (losses) for each period are recognized on a systematic basis and are amortized over the average remaining service life of active employees covered by the pension plan, which is 13 years. The average remaining service period of the active employees covered by the other retirement benefit plans is 17 years.

Foreign currency translation

Monetary assets and liabilities in foreign currency are translated at the exchange rate in effect at the balance sheet date, whereas other assets and liabilities are translated at the exchange rate in effect at the transaction date. Revenue and expenses in foreign currency are translated at the average rate in effect during the year, with the exception of revenue and expenses relating to non-monetary assets and liabilities, which are translated at the historical rate. Realized exchange gains and losses are recognized in the current year's operations. Unrealized exchange gains and losses are recognized in the statement of remeasurement gains and losses.

Excess financing

Government ministries can require the reimbursement of any excess funding. All such reimbursements will be accounted for in the financial year in which they occur.

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

3. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

	2014	2013
Accounts receivable	\$ 4,699,573	\$ (1,290,266)
Prepaid expenses	(915,960)	(149,255)
Accounts payable and accrued liabilities	(665,274)	(55,179)
Deferred contributions	1,061,374	(1,498,903)
	\$ 4,179,713	\$ (2,993,603)

4. ACCOUNTS RECEIVABLE

	2014	2013
Ministry of Education	\$ 155,079	\$ 4,922,554
Governments and government agencies	357,250	-
Subscriptions	2,723	536,586
Commodity taxes	718,113	583,569
Others	379,438	269,467
	\$ 1,612,603	\$ 6,312,176

5. RESTRICTED CASH

	2014	2013
Reserves		
- Capital renewal ^(a)	\$ 1,017,074	\$ 1,000,000
- Employee future benefits ^(b)	540,000	540,000
- TFO Fund ^(c)	1,519,008	1,519,008
- Broadcasting rights ^(d)	990,624	304,175
- Training services	150,000	150,000
- Transition	110,767	110,767
Commitments		
- Broadcasting rights	1,421,819	393,662
- Capital assets	84,458	493,803
	\$ 5,833,750	\$ 4,511,415

^(a) A portion of the funding received annually can be set aside to ensure that the Authority's technical capital assets keep pace with technological changes and can be maintained or replaced.

^(b) For the year ended March 31, 2012, the Authority chose to restrict a portion of the period's surplus for additional contributions to the pension fund.

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

5. RESTRICTED CASH (continued)

- (c) During the 2008-2009 fiscal year, the Authority decided to restrict contributions obtained from the dissolution of the TVOntario Foundation, which were received during the previous year. To this effect, these restricted funds may be used for purposes determined by the Board of Directors from time to time, and only with the approval of the Board.
- (d) During the 2013-2014 fiscal year, the Authority decided to restrict an amount of \$990,624 to acquire educational content for 2 to 12 year olds.

6. BROADCASTING RIGHTS

	2014		
	Cost	Accumulated amortization	Net value
Broadcasting rights and completed productions	\$ 50,298,950	\$ 37,183,530	\$ 13,115,420
Work in progress	2,190,539	-	2,190,539
	\$ 52,489,489	\$ 37,183,530	\$ 15,305,959

	2013		
	Cost	Accumulated amortization	Net value
Broadcasting rights and completed productions	\$ 43,799,993	\$ 30,983,552	\$ 12,816,441
Work in progress	3,117,812	-	3,117,812
	\$ 46,917,805	\$ 30,983,552	\$ 15,934,253

7. IN-HOUSE PROGRAMMING

	2014		
	Cost	Accumulated amortization	Net value
In-house programming	\$ 20,816,240	\$ 7,469,098	\$ 13,347,142

	2013		
	Cost	Accumulated amortization	Net value
In-house programming	\$ 11,726,196	\$ 3,223,721	\$ 8,502,475

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

8. ASSET AND LIABILITY – EMPLOYEE FUTURE BENEFITS

Description of pension and other retirement benefit plans

The Authority has a number of funded and unfunded defined benefit plans, as well as defined contribution plans, that provide pension, other retirement and post-employment benefits to most of its employees.

The pension plan to which most of the Authority's employees contribute is made up of two components. The first component consists of a defined benefit plan entirely funded by the Authority. According to this plan, pension benefits are based on the number of years of service and the employee's salary at the end of their career. Every year, the pension benefits are grossed-up in accordance with the rate of inflation, up to a maximum of 3%. The second component consists in a defined contribution plan, with contributions paid by both the Authority and the participants. Other retirement benefit plans are contributory health care, dental and life insurance plans.

Total cash payments

Cash payments made for future employee benefits, consisting of cash contributed by the Authority to its funded pension plan, cash payments directly to beneficiaries on account of its unfunded other benefits plans, and cash contributed to its defined contribution plans, amount to \$881,201 (2013: \$918,286).

Defined benefit plans

The Authority measures its accrued defined benefit obligations and the fair value of the plan assets as at March 31 of each year. The most recent actuarial valuation of the pension plan, for funding purposes, was prepared by Mercer and is dated March 31, 2014 and is a data extrapolation and evaluation from the valuation dated March 31, 2013.

Reconciliation of the funded status of the benefit plans to amounts recorded in the financial statements

	2014		
	Funded Pension Benefit Plan	Unfunded Other Benefit Plans	Total
Accrued benefit obligations	\$ 9,668,000	\$ 1,519,300	\$ 11,187,300
Fair value of plan assets	(12,063,600)	-	(12,063,600)
Funded status – plan deficit (surplus)	(2,395,600)	1,519,300	(876,300)
Unamortized net actuarial (gain) loss	1,797,500	97,900	1,895,400
Accrued pension liability (asset)	\$ (598,100)	\$ 1,617,200	\$ 1,019,100

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

8. ASSET AND LIABILITY – EMPLOYEE FUTURE BENEFITS (continued)

	2013		
	Funded Pension Benefit Plan	Unfunded Other Benefit Plans	Total
Accrued benefit obligations	\$ 8,904,200	\$ 2,065,300	\$ 10,969,500
Fair value of plan assets	(10,674,900)	-	(10,674,900)
Funded status – plan deficit	(1,770,700)	2,605,300	294,600
Unamortized net actuarial (gain) loss	1,609,800	(721,000)	(888,800)
Accrued pension liability (asset)	\$ (160,900)	\$ 1,344,300	\$ 1,183,400

Pension plan asset components

At the measurement date of March 31, the pension plan assets consist of the following:

	2014	2013
	%	%
Asset category		
Equity securities	60	60
Debt securities	35	35
Other	5	5
	100	100

Employee future benefit costs recognized in the year and benefits paid

	2014	
	Pension Benefit Plan	Other Benefit Plans
Employee future benefits costs recognized	\$ 247,400	\$ 285,800
Benefits paid	\$ 611,700	\$ 12,900

	2013	
	Pension Benefit Plan	Other Benefit Plans
Employee future benefits costs recognized	\$ 840,600	\$ 394,200
Benefits paid	\$ 359,500	\$ 10,800

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

8. ASSET AND LIABILITY – EMPLOYEE FUTURE BENEFITS (continued)

Significant assumptions

The significant assumptions used are as follows (weighted average):

	2014	
	Pension Benefit Plan	Other Benefit Plans
	%	%
Accrued benefit obligations		
Discount rate	6.35	3.80
Rate of compensation increase	2.50	-
Employee future benefits costs		
Discount rate	6.15	3.30
Expected long-term rate of return on plan assets	6.15	-
Rate of compensation increase	2.20	-
	2013	
	Pension Benefit Plan	Other Benefit Plans
	%	%
Accrued benefit obligations		
Discount rate	6.15	3.30
Rate of compensation increase	2.20	-
Employee future benefits costs		
Discount rate	5.15	5.15
Expected long-term rate of return on plan assets	5.75	-
Rate of compensation increase	3.50	-

The assumed health care cost trend rates are based on the following:

	2014	2013
	%	%
Initial health care cost trend rate	9	8.30
Cost trend rate declines to	4.5	4.5
Year that the rate reaches the rate it is assumed to remain at	2030	2030

Defined contribution plan

The total expense recognized in relation with the defined contribution plan amounts to \$189,728 (2013: \$195,800).

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

9. CAPITAL ASSETS

	2014		
	Cost	Accumulated amortization	Net value
Technical equipment	\$ 11,300,522	\$ 7,950,699	\$ 3,349,823
Computer equipment	9,413,395	5,387,793	4,025,602
Office furniture and equipment	1,766,958	437,316	1,329,642
Leasehold improvements	5,638,259	2,962,347	2,675,912
	\$ 28,119,134	\$ 16,738,155	\$ 11,380,979

	2013		
	Cost	Accumulated amortization	Net value
Technical equipment	\$ 10,520,010	\$ 6,751,700	\$ 3,768,310
Computer equipment	6,544,230	4,482,142	2,062,088
Office furniture and equipment	1,193,195	351,834	841,361
Leasehold improvements	5,417,398	2,409,176	3,008,222
	\$ 23,674,833	\$ 13,994,852	\$ 9,679,981

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2014	2013
Trade payables and accrued charges	\$ 3,473,913	\$ 4,231,624
Accrued wages and benefits	787,537	695,100
	\$ 4,261,450	\$ 4,926,724

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

11. DEFERRED CONTRIBUTIONS

	2014		
	Ministry of Education	Others	Total
<i>Deferred Contributions</i>			
Balance, beginning of year	\$ 2,570,824	\$ 39,370	\$ 2,610,194
Add: Amount received	3,608,694	82,518	3,691,212
Less: Amount recognized as revenue	(1,609,895)	(28,585)	(1,638,480)
Balance, end of year	4,569,623	93,303	4,662,926
<i>Special projects</i>			
Balance, beginning of year	1,025,256	10,657	1,035,913
Add: Amount received	283,159	110,120	393,279
Less: Amount recognized as revenue	(1,263,860)	(120,777)	(1,384,637)
Balance, end of year	44,555	-	44,555
<i>Total</i>	<i>\$ 4,614,178</i>	<i>\$ 93,303</i>	<i>\$ 4,707,481</i>
	2013		
	Ministry of Education	Others	Total
<i>Deferred Contributions</i>			
Balance, beginning of year	\$ 3,210,467	\$ 73,162	\$ 3,283,629
Add: Amount received	1,670,057	5,405	1,675,462
Less: Amount recognized as revenue	(2,309,700)	(39,197)	(2,348,897)
Balance, end of year	2,570,824	39,370	2,610,194
<i>Special projects</i>			
Balance, beginning of year	1,742,246	119,135	1,861,381
Add: Amount received	268,840	142,644	411,484
Less:			
Amount recognized as revenue	(944,997)	(162,929)	(1,107,926)
Amount reimbursed	(40,833)	(88,193)	(129,026)
Balance, end of year	1,025,256	10,657	1,035,913
<i>Total</i>	<i>\$ 3,596,080</i>	<i>\$ 50,027</i>	<i>\$ 3,646,107</i>

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

12. DEFERRED CONTRIBUTIONS – BROADCASTING RIGHTS

	2014	2013
Balance, beginning of year	\$ 16,632,090	\$ 15,511,822
Add:		
Amount received this year – Ministry of Education	7,580,802	6,595,168
Amount received prior year – Ministry of Education	100,350	
Amount received – Others	74,000	448,254
Less :		
Transfer	(468,862)	(371,668)
Amortization	(6,199,978)	(5,551,486)
Balance, end of year	\$ 17,718,402	\$ 16,632,090

13. DEFERRED CONTRIBUTIONS – IN-HOUSE PROGRAMMING

	2014	2013
Balance, beginning of year	\$ 8,502,475	\$ 3,247,950
Add:		
Amount received – Ministry of Education	7,935,044	7,395,596
Amount received – Canadian Media Fund	1,155,000	-
Less:		
Amortization	(4,245,377)	(2,141,071)
Balance, end of year	\$ 13,347,142	\$ 8,502,475

14. DEFERRED CONTRIBUTIONS – CAPITAL ASSETS

	2014	2013
Balance, beginning of year	\$ 15,173,786	\$ 13,374,865
Add :		
Amount received – Ministry of Education	5,114,314	5,759,458
Amount received – Others	-	11,666
Less :		
Transfer	(4,568,204)	(759,458)
Amortization	(3,237,385)	(3,212,745)
Balance, end of year	\$ 12,482,511	\$ 15,173,786

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

15. CONTRIBUTIONS – OPERATING GRANTS

	2014	2013
<i>Received in current year</i>		
Grant – core	\$ 9,580,216	\$ 11,034,604
Grant – capital	1,000,000	1,000,000
Grant – broadcasting rights	6,969,440	5,658,500
Grant – transfer to in-house programming	7,935,044	7,395,596
<i>Receivable in current year</i>		
Grant – dedicated funds	137,000	-
Grant – capital	-	4,000,000
<i>Received in prior year</i>		
Capital	4,568,204	759,458
Broadcasting rights	611,362	371,668
Subtitling	-	34,700
Dedicated funds	-	1,975,000
Dedicated projects	1,229,544	300,000
<i>Deferred Contributions</i>		
Broadcasting rights	(7,580,802)	(6,595,168)
In-house programming	(7,935,044)	(7,395,596)
Capital assets	(5,114,314)	(5,759,458)
Dedicated funds	(137,000)	-
Dedicated projects	(3,334,194)	(1,670,057)
	\$ 7,929,456	\$ 11,109,247

16. CONTRIBUTIONS – FUNDING FOR SPECIAL PROJECTS

	2014		
	Ministry of Education	Others	Total
Funding received in current year	\$ 283,159	\$ 110,120	\$ 393,279
Funding recognized from prior years	991,885	34,323	1,026,208
Less: Deferred contributions	(11,184)	(23,666)	(34,850)
	\$ 1,263,860	\$ 120,777	\$ 1,384,637

	2013		
	Ministry of Education	Others	Total
Funding received in current year	\$ 268,840	\$ 142,644	\$ 411,484
Funding recognized from prior year	921,153	126,269	1,047,422
Less: Deferred contributions	(244,996)	(105,984)	(350,980)
	\$ 944,997	\$ 162,929	\$ 1,107,926

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

17. CONTRIBUTIONS – CORPORATE AND GOVERNMENT

	2014	2013
<i>Ministry of Education</i>		
Funding received in current year	\$ 2,605,000	\$ 2,605,000
<i>Federal</i>		
Funding received in current year	1,155,000	101,000
Less: Deferred contributions	(1,155,000)	
<i>Other Ontario agencies</i>		
Funding received in current years	76,970	334,136
Funding recognized from prior year	-	24,090
Less: Deferred contributions	(40,745)	
<i>Other provinces</i>		
Funding received in current year	134,442	104,094
Funding recognized from prior years	-	6,982
Less: Deferred contributions	(28,188)	(5,405)
<i>Corporate</i>		
Funding received in current year	-	18,800
Funding recognized from prior years	15,000	8,125
Less: Deferred contributions	-	
Less: Contributions deferred to the following year – broadcasting rights	(74,000)	(448,254)
	\$ 2,688,479	\$ 2,748,568

18. OTHER REVENUE

	2014	2013
Signal subscriptions	\$ 2,815,731	\$ 2,982,402
Sale of products, donations and other	192,930	34,506
Sublease	105,258	124,687
Interest income	210,530	194,381
Less: Funds deferred to the following period – capital assets	-	(11,666)
	\$ 3,324,449	\$ 3,324,310

19. RELATED PARTY TRANSACTIONS BETWEEN RELATED ORGANIZATIONS

As sponsor of the Ontario French-language Educational Communications Authority Pension Plan, the Authority has undertaken to pay certain costs of the pension plan, including compensation of employees, professional fees and costs associated with the use of premises and other associated costs.

**ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS
AUTHORITY (OFLECA)****NOTES TO THE FINANCIAL STATEMENTS****MARCH 31, 2014**

20. FINANCIAL INSTRUMENTS**Financial risk management objectives and policies**

The Authority is exposed to various financial risks resulting from both its operations and its investment activities. The Authority's management manages financial risks.

The Authority does not enter into financial agreements including derivative financial instruments for speculative purposes.

Financial risks

The Authority's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

Credit risk is the risk of financial loss for the Authority if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Such risks arise mainly from certain financial assets held by the Authority consisting of cash and cash equivalents and accounts receivable.

The Authority is exposed to credit risk attributable to its accounts receivable. The credit risk is assessed as low mainly due to the type of debtor, for the most part comprised of the government. The Authority's accounts receivable are classified as current.

The Authority is exposed to concentration risk attributable to cash and cash equivalents and restricted cash since it only trades with one financial institution. The Authority manages its credit risk by dealing with a reputable bank.

Exchange risk

The Authority is exposed to exchange risk due to cash and cash equivalents and accounts receivable denominated in US dollars. As at March 31, 2014, cash and cash equivalents in US dollars totalled USD \$64,108 (CAD \$70,872) (2013: USD \$5,994 and CAD \$6,090).

The Authority does not enter into forward exchange contracts to cover its exchange risk exposure. The Authority believes that it is not subject to significant foreign exchange risk from its financial instruments.

ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2014

20. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they become due.

Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents. To ensure that the Authority has the necessary funds to fulfil its obligations, the Authority's management establishes budgets, but does not prepare cash flow forecasts.

As at March 31, 2014, the Authority has a cash and cash equivalents and restricted cash balance of \$14,312,821 (2013: \$12,975,075). All the Authority's financial liabilities totalling \$4,261,450 (2013: \$4,926,724) have contractual maturities of less than 365 days.

21. CONTRACTUAL OBLIGATIONS

The Authority has entered into operating lease agreements which call for payments of \$4,776,425 for the rental of office space. The minimum lease payments for the next four years are \$1,532,419 in 2015, \$1,385,770 in 2016, \$1,311,697 in 2017 and \$546,540 in 2018.

The Authority has entered into other operating lease agreements expiring in 2015 which call for monthly lease payments of \$104,167 for access to communication services. The minimum lease payments for the remaining year are \$1,250,000.

As at March 31, 2014, the Authority had committed an amount of \$2,413,743 in 2015 for the purchase of broadcasting rights.

22. CONTINGENCIES

The nature of the Authority's activities is such that there may be litigation pending or in the prospect at any time. With respect to claims existing as at March 31, 2014, management believes that the Authority has valid defenses and appropriate insurance coverage in place. Even in the event these claims would be found valid, management believes that such claims are not expected to have a material effect on the Authority's financial position. No amount has been recorded in the financial statements.

The funding received from government ministries may be refunded following an audit if the funding received is identified as a surplus based on the funding arrangements agreed between the parties. As at March 31, 2014, management has not been informed of any potential refund.

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to be consistent with the current year's presentation.

ONTARIO IMMIGRANT INVESTOR CORPORATION (OIIC)

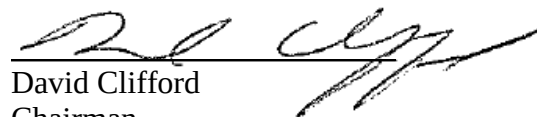
Responsibility for Financial Reporting

Management and the Board of Directors are responsible for the financial statements presented. The financial statements have been prepared by management in accordance with Canadian public sector accounting standards. The preparation of financial statements necessarily involves the use of estimates based on management's judgement. The financial statements have been properly prepared with reasonable limits of materiality and in light of information available up to July 4, 2014.

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.

These financial statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor General's examination and his opinion.

On behalf of management


David Clifford
Chairman



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Immigrant Investor Corporation and to the Minister of Economic Development, Employment, and Infrastructure

I have audited the accompanying financial statements of the Ontario Immigrant Investor Corporation, which comprise the statement of financial position as at March 31, 2014, and the statements of operations, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Ontario Immigrant Investor Corporation as at March 31, 2014 and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Future of the Corporation

While not affecting my opinion, I draw attention to note 1 to the financial statements which indicates that the Federal government is going to end its Immigrant Investor Program and the Corporation is expected to remain operational until 2019-20 or until all outstanding immigrant investors' funds have been returned to them.

Gary Peall, CPA, CA, LPA
Deputy Auditor General

Toronto, Ontario
July 4, 2014

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Ontario Immigrant Investor Corporation

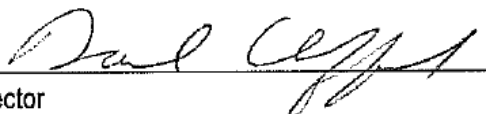
Statement of Financial Position

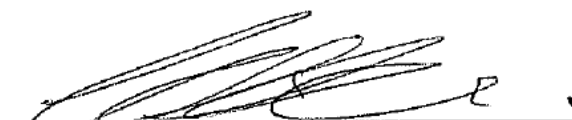
As at March 31, 2014

	2014 (\$ 000)	2013 (\$ 000)
FINANCIAL ASSETS		
Cash	10,241	11,790
Investments (Note 3)	1,207,736	1,162,543
Accounts receivable	71	151
	<u>1,218,048</u>	<u>1,174,484</u>
LIABILITIES AND ACCUMULATED SURPLUS		
Accounts payable	622	646
Repayable Provincial Allocations (Note 4)	1,139,228	1,108,049
	<u>1,139,850</u>	<u>1,108,695</u>
Net Financial Assets	78,198	65,789
Non-Financial Assets		
Deferred Commission Charges (Note 5)	26,404	25,870
	<u>26,404</u>	<u>25,870</u>
Accumulated Surplus	<u>104,602</u>	<u>91,659</u>
Commitment (Note 7)		

See accompanying notes to financial statements.

Approved on behalf of the Board:


Director


Director

Ontario Immigrant Investor Corporation

Statement of Operations

For the Year Ended March 31, 2014

	2014 (\$ 000)	2013 (\$ 000)
Revenue		
Interest income	29,809	35,575
	<u>29,809</u>	<u>35,575</u>
Expenses (Note 6)		
Amortization of deferred commission charges (Note 5)	14,596	14,914
Investment management fee (Note 3)	2,270	2,428
	<u>16,866</u>	<u>17,342</u>
Excess of Revenue over Expenses	12,943	18,233
Accumulated Surplus, beginning of year	91,659	73,426
	<u>91,659</u>	<u>73,426</u>
Accumulated Surplus, end of year	<u>104,602</u>	<u>91,659</u>

See accompanying notes to financial statements.

Ontario Immigrant Investor Corporation

Statement of Changes in Net Financial Assets

For the Year Ended March 31, 2014

	2014 (\$ 000)	2013 (\$ 000)
Excess of Revenue Over Expenses	12,943	18,233
Deferred Commission Charges Paid	(15,150)	(8,617)
Amortization of Deferred Commission Charges	14,596	14,914
Deferred Commission Recovered	20	11
Increase in Net Financial Assets	12,409	24,541
Net Financial Assets, beginning of year	65,789	41,248
Net Financial Assets, end of year	78,198	65,789

Ontario Immigrant Investor Corporation

Statement of Cash Flows

For the Year Ended March 31, 2014

	2014 (\$ 000)	2013 (\$ 000)
Cash provided by (used in) operating activities		
Interest received	604	273
Investment Management Fees paid	(2,214)	(2,532)
Administration	-	(25)
	<u>(1,610)</u>	<u>(2,284)</u>
Cash (used in) provided by investing and financing activities		
Provincial allocations received net of commissions	249,712	130,246
Provincial allocations repaid	(233,397)	(216,109)
Provincial allocations refunded	(266)	(144)
	<u>16,049</u>	<u>(86,007)</u>
Investments matured	477,769	320,023
Investments purchased	(493,757)	(243,679)
	<u>(15,988)</u>	<u>76,344</u>
Net (decrease) in cash	<u>(1,549)</u>	<u>(11,947)</u>
Cash, beginning of year	<u>11,790</u>	<u>23,737</u>
Cash, end of year	<u>10,241</u>	<u>11,790</u>

See accompanying notes to financial statements.

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2014

1. Nature and Future of the Corporation

The Ontario Immigrant Investor Corporation was established as a corporation without share capital on April 30, 1999 pursuant to Ontario Regulation 279/99 made under the *Development Corporations Act*.

The Corporation was established in order to participate in a federal Immigrant Investor Program (IIP). Under the IIP, each participating province established a vehicle to receive and invest immigrant investor dollars for the purposes of creating or continuing employment in Canada in order to foster the development of a strong and viable economy. Each participating province, in turn, guarantees immigrant investors that their investment will be repaid after five years with no interest.

On February 11, 2014, the Federal government announced its plan to terminate the Immigrant Investor Program as part of its proposed budget. Citizenship and Immigration Canada (CIC) has been committed to processing the remaining 600 applications that were in the final selection phase, which represents a total of \$300M - \$390M. Ontario can expect to receive its share of the remaining funds (\$105-\$135) by the end of March 2015. The repayment of this allocation to the immigrant investors after five years will occur in 2019-20. Accordingly, OIIC will remain operational until 2019-20 to meet its obligations under the Immigrant Investor Program and is expected to wind up shortly thereafter.

2. Significant Accounting Policies

(A) BASIS OF ACCOUNTING

As the Corporation is a government organization, these financial statements are prepared in accordance with Canadian public sector accounting standards.

(B) REVENUE RECOGNITION

Accrued interest is recognized as earned and amounts not yet received are included in the carrying value of investments.

(C) FINANCIAL INSTRUMENTS

A financial instrument is an asset or liability that will ultimately be settled in cash.

- Cash, accounts receivable and accounts payable are recorded at cost, which approximates fair value due to the short-term nature of these instruments.
- Investments are initially recorded at cost and subsequently recorded at cost plus accrued interest earned to date.
- Repayable provincial allocations are originally recorded at the actual amounts received and remain at those amounts until repaid due to the interest-free nature of the debt. They have not been discounted to reflect fair value.

(D) DEFERRED COMMISSION CHARGES

Deferred commission charges are amortized to expense on a straight-line basis over the same period as the related Repayable Provincial Allocation beginning in the fiscal year when the allocation is received.

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2014

2. Significant Accounting Policies (Continued)

(E) USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

3. Investments

Prior to February 2011, the Corporation invested all of its allocations in fixed income securities issued by the Province of Ontario, maturing within five years. In general, zero-coupon bonds were purchased to align maturity dates to the Provincial Allocations repayment schedule provided in Note 4. As at March 31, 2014, these fixed income securities had a weighted-average yield of 2.84% (2013 - 3.18%).

In September 2010, in order to satisfy the requirements of the Federal Immigrant Investor Program the Corporation approved a new investment strategy to direct a significant portion of allocations received to the Loan Program managed by Ontario Infrastructure and Lands Corporation (OILC) a related party. Through its Loan Program, OILC helps finance hundreds of infrastructure projects such as the construction of roads, bridges and facilities thereby fostering economic development and job creation.

The Corporation entered into an agreement with OILC to direct a minimum of \$12.5 million of the allocations to OILC monthly, in exchange for promissory notes due five years from the date of the transfer at either a fixed or floating interest rate effectively equal to the Province's cost of borrowing for similar terms as determined by the Ontario Financing Authority. In February 2011, the Corporation started to advance funds to OILC, and as at March 31, 2014 the promissory notes had a weighted-average interest rate of 2.09% (2013 - 2.07%).

The entire portfolio of investments is managed by the Ontario Financing Authority (OFA), a related party, in accordance with the terms and conditions set out in an agreement signed between the OFA, the Corporation and the Province. The OFA receives an investment management fee of 0.2% of the average par value or face value of the investments outstanding during the year for performing these services.

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2014

3. Investments (Continued)

The investments balance which includes accrued interest is broken down as follows:

	March 31, 2014	March 31, 2014	March 31, 2013	March 31, 2013
	Cost	Market	Cost	Market
	(\$ 000)	(\$ 000)	(\$ 000)	(\$ 000)
OILC Promissory Notes	553,635	543,440	344,151	343,166
Zero Coupon Bonds	491,609	498,898	743,706	760,821
Fixed Income Bonds	93,330	92,255	34,880	34,806
Treasury Bills	69,162	69,162	39,806	39,803
	<u>1,207,736</u>	<u>1,203,755</u>	<u>1,162,543</u>	<u>1,178,596</u>

The Corporation is exposed to interest rate risk whenever any funds received from immigrants are invested in fixed income securities because the future return and market value of the investments is dependent on the prevailing interest rates. However, there is very little exposure to fluctuating interest rates during the 5-year period of the repayable provincial allocations because the maturity of the fixed income investments matches the maturity of the repayable provincial allocations.

It is management's opinion that the Corporation is not exposed to significant credit or currency risk because all investments are with related parties supported by the Province and none of them are denominated in a foreign currency.

4. Repayable Provincial Allocations

The Corporation incurs long-term obligations from funds received under the federal Immigrant Investor Program in accordance with the terms and conditions set out in agreements signed in June 1999 and June 2011 between the federal Minister of Citizenship and Immigration and the Corporation. The agreement states that the federal Minister, as agent of the Corporation, receives funds from immigrant investors and transfers Ontario's share of the funds (Provincial Allocation) to the Corporation. The Corporation will repay any Provincial Allocations received without interest at expiry of the Allocation Period, being five years from the date the Provincial Allocation was originally received. An investor's application for permanent residence may be withdrawn by the Investor or denied by the federal government. If this happens, the Provincial Allocation pertaining to the Investor is due and refunded by the Corporation within 90 days of written notification from the investor for repayment. Funds received pertaining to applications still being processed by the federal government are also considered repayable within 90 days.

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2014

4. Repayable Provincial Allocations (Continued)

The Province guarantees the repayment of the Provincial Allocations when due. The repayment schedule on Provincial Allocations is as follows:

	(\$ 000)
In Process	11,885
Due fiscal year 2015	251,635
Due fiscal year 2016	258,147
Due fiscal year 2017	218,732
Due fiscal year 2018	138,729
Due fiscal year 2019	260,100
	<u>1,139,228</u>

5. Deferred Commission Charges

The Corporation pays a commission to intermediaries for introducing new immigrant investors who successfully apply for permanent residence in Ontario under the federal Immigrant Investor program. If the application for permanent residence is withdrawn by the immigrant investor or denied by the federal government, the Corporation recovers the commission in the year when this occurs. The deferred charges represent the unamortized balance of the commissions.

	2014 (\$ 000)	2013 (\$ 000)
Balance, beginning of year	25,870	32,178
Commissions paid	15,150	8,617
Commissions recovered	(20)	(11)
Amortization	(14,596)	(14,914)
Balance, end of year	<u>26,404</u>	<u>25,870</u>

6. Administration Support Services

Business support, strategic management services and other administrative support, including accommodation, financial, legal and human resource services is provided by the Ministry of Economic Development, Trade and Employment without charge.

Ontario Immigrant Investor Corporation

Notes to Financial Statements

March 31, 2014

7. Commitment

The Corporation has a potential commitment of \$7.1 million to support funding commitments made by the Innovation Development Fund (IDF), which is administered by the Ministry of Research and Innovation (a related party), and provides funding to assist innovative companies to develop emerging technologies. As the IDF flows funds to eligible projects previously approved by the Corporation, it will request reimbursement, and the Corporation will then reimburse the IDF by paying a dividend to the Consolidated Revenue Fund of the Province of Ontario.

INFRASTRUCTURE ONTARIO RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Ontario Infrastructure and Lands Corporation have been prepared in accordance with accounting principles for governments recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada and, where applicable, the recommendations of the Accounting Standards Board of the Chartered Professional Accountants of Canada and are the responsibility of management.

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.

The Board of Directors oversees management's responsibilities for financial reporting through the Audit Committee. The Audit Committee reviews the financial statements and recommends them to the Board for approval.

The financial statements have been audited by PricewaterhouseCoopers LLP. The 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 outlines the scope of the Auditor's examination and opinion.

On behalf of management,



Bert Clark
President and Chief Executive Officer



Komathie Wulf
Chief Financial Officer



June 19, 2014

Independent Auditor's Report

To the Directors of Ontario Infrastructure and Lands Corporation

We have audited the accompanying financial statements of Ontario Infrastructure and Lands Corporation, which comprise the statement of financial position as at March 31, 2014 and the statement of operations and accumulated surplus, re-measurement gains and losses, changes in net financial assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Infrastructure and Lands Corporation as at March 31, 2014 and the results of its operations, its re-measurement gains and losses, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licenced Public Accountants

INFRASTRUCTURE ONTARIO
STATEMENT OF FINANCIAL POSITION
As at March 31
(in thousands of dollars)

	2014	2013
Financial assets		
Cash and cash equivalents (Note 2)	\$ 787,321	\$ 663,461
Accounts receivables (Note 3)	152,448	71,296
Interest receivable	59,038	52,619
Investment income receivable	1,919	1,994
Loans receivables (Note 4)	4,802,797	4,292,502
Derivatives (Note 5)	209,279	256,238
Projects receivables (Note 6)	108,009	155,590
Investments (Note 7)	225,917	332,880
	6,346,728	5,826,580
Liabilities		
Accounts payables	70,042	11,141
Accrued liabilities	67,239	42,152
Interest payable	59,222	54,315
Derivatives (Note 5)	245,051	326,888
Deferred revenue	5,915	4,455
OFA credit facility (Note 8)	25,000	73,000
Debt – loan program (Note 9)	5,743,153	5,243,738
	6,215,622	5,755,689
Net financial assets	131,106	70,891
Non-financial assets		
Tangible capital assets (Note 10)	5,365	5,836
	5,365	5,836
Accumulated surplus	172,243	147,377
Accumulated re-measurement losses	(35,772)	(70,650)
	\$ 136,471	\$ 76,727
Contingencies (Note 17)		
Commitments (Note 18)		

The accompanying notes are an integral part of these financial statements.

Approved



Board Chair



FCPA, FCH

Director, Chair Audit Committee

INFRASTRUCTURE ONTARIO
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
For the year ended March 31
(in thousands of dollars)

	2014 Budget	2014	2013 (Note 22)
Revenue			
Interest revenue (Note 11)	\$ 15,630	\$ 159,422	\$ 140,767
Investment income (Note 11)	-	7,291	19,247
Project delivery fees	70,741	70,874	74,415
Management fees	40,883	40,106	41,871
Recoverable costs	80,362	33,654	75,366
Other income	-	2	1,295
	207,616	311,349	352,961
Expenses			
Salaries and benefits	58,411	58,030	55,059
General and administration (Note 12)	22,429	19,424	19,305
Program Expenses			
Project advisory fees	92,203	36,473	89,156
Interest (Note 11)	-	154,379	146,199
Loan valuation allowance	2,944	7,230	114
Sub-contracting fees	9,220	9,664	9,108
Project funding expenses	1,833	1,283	1,969
Total program expenses	106,200	209,029	246,546
	187,040	286,483	320,910
Surplus	20,576	24,866	32,051
Accumulated surplus, beginning of year	147,377	147,377	115,326
Accumulated surplus, end of year	\$ 167,953	\$ 172,243	\$ 147,377

The accompanying notes are an integral part of these financial statements.

INFRASTRUCTURE ONTARIO
STATEMENT OF RE-MEASUREMENT GAINS & LOSSES
For the year ended March 31
(in thousands of dollars)

	2014	2013
Accumulated re-measurement losses, beginning of year	\$ (70,650)	\$ -
Adjustment upon adoption of PS 3450 – Financial Instruments	-	(47,817)
Realized losses – reclassified to the Statement of Operations	21,897	19,844
Re-measurement gains/(losses)	12,981	(42,677)
Net re-measurement gains/(losses) in the year	34,878	(22,833)
Accumulated re-measurement losses, end of year	\$ (35,772)	\$ (70,650)

The accompanying notes are an integral part of these financial statements.

INFRASTRUCTURE ONTARIO
STATEMENT OF CHANGES IN NET FINANCIAL ASSETS
For the year ended March 31
(in thousands of dollars)

	2014	2013
Surplus	\$ 24,866	\$ 32,051
Acquisition of tangible capital assets	(1,308)	(1,483)
Amortization of tangible capital assets	1,779	1,933
Re-measurement losses adjustment upon adoption of PS 3450	-	(47,817)
Net re-measurement gains/(losses) in the year	34,878	(22,833)
Net change in net financial assets	60,215	(38,149)
Net financial assets at beginning of year	70,891	109,040
Net financial assets at end of year	\$ 131,106	\$ 70,891

The accompanying notes are an integral part of these financial statements.

INFRASTRUCTURE ONTARIO
STATEMENT OF CASH FLOWS
For the year ended March 31
(in thousands of dollars)

	2014	2013 (Note 22)
Operating activities		
Net surplus	\$ 24,866	\$ 32,051
Items not requiring a current cash outlay:		
Increase in loan valuation allowance	7,230	114
Amortization of deferred concession costs	(9,125)	(9,995)
Amortization of tangible capital assets	1,779	1,933
	<u>24,750</u>	<u>24,103</u>
Changes in non-cash working capital items:		
(Increase) /decrease in accounts receivables	(81,152)	1,481
Increase in interest receivables	(6,419)	(7,622)
Decrease/(increase) in projects receivables	47,581	(11,223)
Increase/(decrease) in accounts payables	58,901	(2,402)
Increase in accrued liabilities	25,087	17,349
Increase/(decrease) in deferred revenue	1,460	(168)
Decrease in provision for restructuring costs	-	(1,323)
Cash provided by operating activities	<u>70,208</u>	<u>20,195</u>
Capital activities		
Acquisition of tangible capital assets	(1,308)	(1,483)
Cash used in capital activities	<u>(1,308)</u>	<u>(1,483)</u>
Investing activities		
Decrease in investment income receivable	75	602
Purchase of investments	(2,774,866)	(3,030,042)
Proceeds from disposition of investments	2,881,829	3,032,393
Issuance of loans receivables	(767,760)	(863,246)
Loan repayments	259,360	265,870
Cash used in investing activities	<u>(401,362)</u>	<u>(594,423)</u>
Financing activities		
Increase in interest payables	4,907	10,284
Repayment of OFA revolving credit facility	(48,000)	(10,000)
Debt issuances	3,472,141	3,089,570
Debt repayments	(2,972,726)	(2,458,497)
Cash provided by financing activities	<u>456,322</u>	<u>631,357</u>
Net increase in cash and cash equivalents	123,860	55,646
Cash and cash equivalents, beginning of year	663,461	607,815
Cash and cash equivalents, end of year	\$ 787,321	\$ 663,461

The accompanying notes are an integral part of these financial statements.

INFRASTRUCTURE ONTARIO

NOTES TO FINANCIAL STATEMENTS

March 31, 2014 and 2013

NATURE OF THE CORPORATION

Ontario Infrastructure and Lands Corporation (Infrastructure Ontario, Agency) is a Crown Corporation reporting to the Minister of Infrastructure (Minister) and is classified by the Province of Ontario (Province) as an operational enterprise.

The mandate of Infrastructure Ontario includes the following:

- To provide financing for infrastructure purposes to municipalities and to eligible public organizations;
- To provide the Government with advice and services, including project management, contract management and development, related to public works;
- To provide financial management for public works managed by the Ministry of Infrastructure (Ministry) or by a Crown agency for which the Minister is responsible;
- To carry out the powers, duties and functions delegated by the Minister to the Corporation under the Ministry of Infrastructure Act, 2011;
- To provide advice and services related to real property to public sector organizations when directed to do so in writing by the Minister;
- To advise the Minister on infrastructure projects in Ontario, when directed to do so in writing by the Minister;
- To advise the Minister on financial, strategic or other matters involving the Government, when directed to do so in writing by the Minister;
- To implement or assist in the implementation of transactions involving the Government, when directed to do so in writing by the Minister;
- To provide project management and contract management services related to infrastructure projects in Ontario that are not public works, when directed to do so in writing by the Minister; and
- To undertake any additional objects as directed by the Minister of Infrastructure.

As a Crown corporation, Infrastructure Ontario is exempt from federal and provincial income taxes under paragraph 149(1) (d) of the Income Tax Act of Canada. Infrastructure Ontario has been added to Schedule A of the Canada Ontario Reciprocal Taxation Agreement and is exempt from the Goods and Services Tax. Infrastructure Ontario is subject to Harmonized Sales Tax (HST).

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements are prepared in accordance with accounting policies and standards established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA).

Management estimates

The preparation of financial statements in accordance with Canadian General Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from these estimates.

Key areas where management has made estimates are in the percentage of completion for the determination of revenue from project delivery fees, the loan portfolio valuation allowance and the fair value of derivatives. Actual results could differ from these and other estimates, the impact of which would be recorded in future periods.

Financial Instruments

Infrastructure Ontario's financial assets include cash and cash equivalents, accounts receivables, interest receivable, investment income receivable, loans receivables, derivatives, projects receivables, and

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
March 31, 2014 and 2013

investments. Infrastructure Ontario's financial liabilities include accounts payables, accrued liabilities, interest payable, derivatives, Ontario Financing Authority (OFA) credit facility, and the debt-loan program.

Initial recognition and measurement

All financial assets and liabilities are initially recognized at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties, who are under no compulsion to act. Financial instruments are classified at initial recognition as either (i) fair value or (ii) cost or amortized cost. Derivatives are classified in the fair value category. All other financial instruments are classified in the cost or amortized cost category.

The amortized cost of the 2003-04 program loans (see Note 4) issued by Infrastructure Ontario, which were considered to have concessionary terms, was determined as the present value of the future cash flows of the loan, and discounted using Infrastructure Ontario's cost of borrowing. The difference between the face value of the loan and its present value is, in substance, a grant. The grant portion is recognized as a concession cost at the date of issuance of the loan and amortized to match the underlying interest subsidy, over the term of the loan.

Transaction costs for financial instruments measured at cost or amortized cost are added to or netted against the carrying value of the financial asset or financial liability, respectively. Transaction costs for financial instruments measured at fair value are expensed immediately in the statement of operations.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

i. Financial instruments at fair value

Financial instruments at fair value are re-measured at their fair value at the end of each reporting period. Any unrealized gains and losses are recognized in the statement of re-measurement gains and losses and are subsequently reclassified to the statement of operations upon disposal or settlement.

Infrastructure Ontario uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The fair value of financial instruments not traded in an active market is determined by appropriate valuation techniques, including forward pricing and swap models, using present value calculations. The models incorporate various inputs including forward interest rate curves.

INFRASTRUCTURE ONTARIO

NOTES TO FINANCIAL STATEMENTS

March 31, 2014 and 2013

ii. *Financial instruments at cost or amortized cost*

Financial instruments not measured at fair value are measured at cost or amortized cost.

For financial assets and financial liabilities measured at amortized cost, interest is recorded using the effective interest rate (EIR) method. The EIR is the rate that discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, a shorter period.

Impairment

i. *Loss in value of an investment (not quoted in an active market)*

A write down is recognized in the Statement of Operations and Accumulated Surplus when there has been a loss in the value of the investment considered as an 'other than temporary' loss. A loss is considered 'other than temporary' when the carrying value of the investment exceeds its actual value for a prolonged period of time. If the actual value of the portfolio investment subsequently increases, the write down to the statement of operations is not reversed.

ii. *Loans receivables impairment*

A loan portfolio valuation allowance is maintained at a level that Infrastructure Ontario considers adequate to absorb valuation adjustments and losses on loans. A loan valuation allowance is established against the loan portfolio after management's review of existing economic, industry and portfolio conditions across the different loan segments. The valuation allowance is underpinned by a risk rating process in which risk ratings are assigned at the time of loan origination, monitored on an ongoing basis, and adjusted to reflect changes in underlying credit risk. A number of factors are considered when determining the appropriate level of the valuation allowance, including sensitivity to risk ratings, industry sectors, portfolio quality, business mix, and economic and credit market conditions. A valuation allowance is also established in instances of known client credit deterioration at the expected net recoverable value.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit and highly liquid investments with a term to maturity of one year or less.

Derivative financial instruments

Infrastructure Ontario uses derivative financial instruments, specifically interest rate swaps, to manage its interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered and are subsequently re-measured at fair value at each reporting date. Derivatives are carried as financial assets when the fair value is in a receivable position and as financial liabilities when the fair value is in a payable position.

Any unrealized gains or losses arising from changes in the fair value of derivatives are recorded in the statement of re-measurement gains and losses and are subsequently re-classified to the statement of operations upon settlement.

Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful life of the assets beginning in the fiscal year of acquisition, with a half-year provision in the year of acquisition and half-year in the year of disposal. The estimated useful lives of the assets are as follows:

Computer hardware and equipment	3 years
Software	5 years
Furniture, fixtures and office equipment	3 – 10 years
Leasehold improvements	5 – 10 years

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
March 31, 2014 and 2013

Impairment of tangible capital assets

The Agency reviews the carrying value of tangible capital assets for potential impairment when there is evidence that events or changes in circumstances exist, that indicate that a tangible capital asset no longer contributes to a government's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value. In these circumstances, the cost of the tangible capital asset is reduced to reflect the decline in the asset's value. No such impairment losses have been incurred to date.

Revenue recognition

Interest revenue and investment income

Interest on investments and loans receivables are recognized using the effective interest rate method.

Project delivery fees

Infrastructure Ontario provides professional services under either cost based or fixed price contracts. For cost based contracts, revenue is recorded when an arrangement is in place, costs are incurred, and collectability is reasonably assured. Revenue from fixed price contracts is recorded using the percentage-of-completion method. Percentage of completion is calculated based on a ratio of cost incurred to total estimated costs. Losses, if any, on fixed price contracts are recognized during the period they are identified.

Management fees and recoverable costs

Management fees and recoverable costs are recognized as revenue when arrangement is in place, when services are provided and collectability is reasonably assured.

2. CASH AND CASH EQUIVALENTS

	2014	2013
(\$,000)		
Cash	\$ 87,023	\$ 29,043
Cash equivalents	700,298	634,418
	<u>\$ 787,321</u>	<u>\$ 663,461</u>

Cash equivalents include money market investments and short term fixed income instruments recorded at cost, which closely approximate fair value. At March 31, 2014 the interest rates on these investments ranged from 1.00 % to 1.17% (2013 - 0.98% to 1.56%).

3. ACCOUNTS RECEIVABLES

	2014	2013
(\$,000)		
Trade accounts receivable	\$ 74,107	\$ 67,792
HST receivable	78,341	3,504
	<u>\$ 152,448</u>	<u>\$ 71,296</u>

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
March 31, 2014 and 2013

4. LOANS RECEIVABLES

(\$,000)	2014	2013
Construction advances		
Infrastructure renewal loan program	\$ 733,947	\$ 604,333
	<u>733,947</u>	<u>604,333</u>
Debentures receivables	Interest %	Interest %
Concessionary loan program		
Maturity within 5 years	-	-
6 to 10 years	66,960 2.06-2.71	92,830 2.06-2.71
11 to 15 years	42,039 2.28-2.67	47,354 2.28-2.67
16 to 20 years	304,538 2.36-2.95	327,054 2.36-2.95
Greater than 20 years	66,882 2.52-3.05	69,626 2.52-3.05
	<u>480,419</u>	<u>536,864</u>
Infrastructure renewal loan program		
Maturity within 5 years	29,771 1.48-5.07	37,448 1.48-5.07
6 to 10 years	470,932 2.42-5.20	450,433 2.42-5.20
11 to 15 years	578,151 2.37-5.37	598,066 3.07-5.37
16 to 20 years	1,024,380 3.17-5.89	914,870 3.30-5.89
Greater than 20 years	1,554,857 3.19-5.91	1,222,043 3.49-5.91
	<u>3,658,091</u>	<u>3,222,860</u>
Total	<u>4,138,510</u>	<u>3,759,724</u>
Deferred costs on concessionary loans		
Deferred costs, beginning of year	(67,741)	(77,736)
Amortization of concession costs	9,125	9,995
Deferred costs, end of year	<u>(58,616)</u>	<u>(67,741)</u>
Loan valuation allowance	(11,044)	(3,814)
Loans receivables	<u>\$ 4,802,797</u>	<u>\$ 4,292,502</u>

Construction advances are loans due from municipalities, other public sector bodies and not for profit entities. The interest rate on these construction loans is 30 day Bankers' Acceptances plus 10 basis points. These loans are of a shorter term than the debentures (less than five years), and are repaid when construction is complete.

Debentures receivables are due from municipalities, other public sector clients and not for profit entities, with terms ranging from 5 to 40 years.

Infrastructure Ontario manages its credit risk with the current loan portfolio through various provisions in the loan agreements. The Agency has an intercept mechanism with the Province which allows for funds owing to a borrower that receives funding from the Province to be redirected to Infrastructure Ontario. Loans to non-government borrowers are subject to restrictive covenants on assets and the borrower is required to provide security and some are required to provide loan insurance.

5. DERIVATIVES

Infrastructure Ontario employs various risk management strategies and operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost effective manner. A variety of strategies are used, including the use of derivatives. Infrastructure Ontario does not use derivatives for speculative purposes.

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Derivatives are financial contracts, the value of which is derived from underlying instruments. Infrastructure Ontario, being borrower and lender, uses derivatives to create cash flow hedges for instruments with differing maturity dates. The interest rate variability risk is managed through interest rate swaps, which are legal contracts under which Infrastructure Ontario agrees with another party to exchange cash flows based on one or more notional amounts using stipulated reference interest rates for a specified period. Interest rate swaps allow Infrastructure Ontario to offset its existing loan receivables and debt obligations and thereby, effectively convert them into instruments with terms that minimize the Agency's interest rate risk exposure. Infrastructure Ontario has swapped certain of its fixed rate loan receivables and fixed rate debt portfolio into floating rate instruments.

All interest rate swap agreements are with OFA, (an entity also under control of the government of Ontario) as the contracting party. The OFA has the option at certain dates within the swap period to reset an individual interest rate swap and a cash settlement or receipt may result, however the resetting does not affect the effectiveness of the swap transaction.

The table below presents a maturity schedule of Infrastructure Ontario's derivatives, outstanding as at March 31, 2014, based on the notional amounts of the contracts. The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The notional amounts are not recorded in the Statement of Financial Position. They represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows of such instruments.

Maturity:	Within 1 Year	2 to 5 Years	6 to 10 Years	11 to 15 Years	Over 15 Years	Total Notional Value
(\$,000,000)						
Debt	\$ 70	1,443	1,227	-	841	3,581
Loans receivables	\$ 212	980	1,159	760	958	4,069

Derivatives are recorded at fair value as at March 31, 2014 resulting in a derivative asset of \$209.3 million, derivative liabilities of \$245.1 million and an unrealized loss on the statement of re-measurement gains/ (losses) of \$35.8 million (2013- derivative asset of \$256.2 million, derivative liabilities of \$326.9 million and an unrealized loss on the statement of re-measurement gains / (losses) of \$70.7 million). Fair values for both were determined using Level 2 basis of valuation as defined in Note 1.

Fair values of these derivatives were determined using pricing models, with market observable inputs which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. The determination of the fair value of derivatives includes consideration of credit risk and ongoing direct costs over the life of the instruments.

6. PROJECTS RECEIVABLES

Project receivables are revenues and expense recoveries, recognized either on a percentage-of-completion method or when the expenses occurred that have not yet been invoiced. Certain projects receivables, including interest costs to finance the receivables, will not be invoiced until the completion of the project. Projects receivables are due from various Ministries and Ontario Crown Agencies.

7. INVESTMENTS

Investments consist of bonds utilized as economic hedging instruments to mitigate some of the interest rate risk between when funds are borrowed and lent. These investments are carried at amortized cost. At March 31, 2014 the interest rates on these investments ranged from 2.10% to 3.50% (2013 – 1.90% to 5.00%) and maturities from September 2014 to June 2045.

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8. OFA CREDIT FACILITY

OFA, an agency of the Province, provides Infrastructure Ontario with a subordinated revolving credit facility of up to \$200 million to provide working capital for project management and project delivery programs. Advances are to be repaid upon completion of individual projects. At March 31, 2014, Infrastructure Ontario had drawn \$25.0 million (2013 - \$73.0 million) on the credit facility, with interest at the Province's cost of funds for borrowings with a similar term. Interest charges range from 1.59% to 2.59% (2013 – 1.59% to 2.64%), with advance maturities from April 2014 to July 2015.

Infrastructure Ontario enacted a borrowing by-law effective June 6, 2011 extending the Agency's authorization to borrow funds until June 29, 2016 and extending the mandatory repayment date for all borrowings to June 29, 2019. Subsequently, Infrastructure Ontario and OFA entered into an amending agreement extending the date to which Infrastructure Ontario may borrow funds until June 29, 2016 and extending the mandatory repayment date to June 29, 2019.

9. DEBT – LOAN PROGRAM

Capital Funding:

	2014	2013
(\$,000)		
Province of Ontario loan	\$ 799,681	\$ 799,681
Ontario Clean Water Agency loan	120,000	120,000
	\$ 919,681	\$ 919,681

Program Funding:

	2014	2013
(\$,000)		
Commercial paper	\$ 659,241	\$ 669,213
Infrastructure Renewal Bonds	950,000	1,250,000
OIPC/OILC bonds and FRNs	2,690,000	2,080,000
Ontario Immigrant Investor Corporation loans	534,342	334,490
	\$ 4,833,583	\$ 4,333,703
Debt issue costs	(10,111)	(9,646)
	\$ 5,743,153	\$ 5,243,738

Province of Ontario Loan

The Province provides Infrastructure Ontario with a 50 year subordinated loan of approximately \$800 million in exchange for a promissory note which matures on March 31, 2053. The interest on the note is reset quarterly at the Province's three-month treasury bill rate and payable quarterly. On March 31, 2014 interest on the note was reset at 0.97% (2013 – 1.00%).

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Ontario Clean Water Agency Loan

The Ontario Clean Water Agency (OCWA), an agency of the Province, provides a twenty-year subordinated loan of \$120 million to Infrastructure Ontario in exchange for a promissory note which matures on March 1, 2023. The interest rate on the note is reset monthly at four basis points below the average one month Canadian Dollar Offered Rate (CDOR) payable quarterly. On March 31, 2014 interest on the note was reset at 1.22% (2013 - 1.22%).

Together the Province of Ontario and OCWA loans provide Infrastructure Ontario with its liquidity reserve which provides: (i) credit protection to investors of unsubordinated debt such as Infrastructure Renewal Bonds and Commercial Paper; (ii) a liquidity backstop for Infrastructure Ontario's financing needs; and (iii) a stable long-term capital base that enables Infrastructure Ontario to achieve a high credit rating. Infrastructure Ontario invests the funds in liquid short term fixed income securities.

Commercial Paper

Infrastructure Ontario issues notes under a commercial paper program. The funds are used to fund its loan program. The program is authorized to issue a maximum of \$750 million for terms of up to one year. During the year, interest on the notes ranged from 1.05% to 1.07% (2013 – 1.05% to 1.07%). As of March 31, 2014, maturities ranged from April 2014 to June 2014.

Infrastructure Renewal Bonds

Infrastructure Ontario assumed \$650 million of Infrastructure Renewal Bonds, on July 17, 2006, the date of amalgamation with Ontario Strategic Infrastructure Financing Authority (OSIFA). The bonds bear interest at 4.60% per annum and mature on June 1, 2015.

On April 19, 2007, Infrastructure Ontario issued \$300 million of Infrastructure Renewal Bonds. The bonds bear interest at 4.70% per annum and mature on June 1, 2037.

On August 26, 2008, Infrastructure Ontario issued \$300 million of Infrastructure Renewal Bonds. The bonds matured and were redeemed on June 3, 2013.

OIPC / OILC Bonds and FRNs

Infrastructure Ontario issued Ontario Infrastructure Projects Corporation (OIPC) and Ontario Infrastructure and Lands Corporation (OILC) bonds and Floating Rate Notes (FRN) to the Province for the purpose of funding its loan program. The bonds and FRN's are subordinated obligations of Infrastructure Ontario and rank behind all other existing and future unsubordinated obligations and unsecured public debt of Infrastructure Ontario.

At March 31, 2014, interest on fixed rate bonds ranged from 2.02% to 4.96% (2013 – 2.02% to 4.96%) per annum and maturities range from September 2014 to June 2045. Interest is paid semi-annually on these bonds until maturity. The FRN's bear interest from three month Canadian Dealer Offered Rate (CDOR) plus 16 basis points to three month CDOR plus 22 basis points and the maturity of the notes is June 30, 2018. Interest is reset and paid quarterly until the maturity of the FRN's.

Ontario Immigrant Investor Corporation Loans

Ontario Immigrant Investor Corporation (OIIC), an agency of the Province, provides five-year subordinated loans. The loans are subordinated obligations of Infrastructure Ontario and rank behind all other existing and future unsubordinated obligations and unsecured public debt of Infrastructure Ontario.

As at March 31, 2014, interest on fixed rate bonds ranged between 1.86% and 3.05% compounded semi-annually and paid on maturity. Maturities ranged from January 2016 to February 2019. Interest on bonds bearing a variable rate of interest is reset and compounded quarterly with a floor rate of 1.55% per annum. Maturities ranged from October 2016 to January 2019.

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10. TANGIBLE CAPITAL ASSETS

		Year-ended March 31 2014			
(\$,000)	Computer Equipment	Software	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Total
Cost					
Balance, April 1, 2013	\$ 14,008	4,504	1,984	9,828	30,324
Additions/(disposals)	1,659	(351)	-	-	1,308
Balance, March 31, 2014	15,667	4,153	1,984	9,828	31,632
Accumulated amortization					
Balance, April 1, 2013	12,872	4,128	1,689	5,799	24,488
Amortization	800	25	91	863	1,779
Balance, March 31, 2014	13,672	4,153	1,780	6,662	26,267
Net book value – March 31, 2014	\$ 1,995	-	204	3,166	5,365

		Year-ended March 31, 2013				
(\$,000)	Computer Equipment	Software	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Total	
Cost						
Balance, April 1, 2012	\$ 12,876	4,153	1,984	9,828	28,841	
Additions	1,132	351	-	-	1,483	
Balance, March 31, 2013	14,008	4,504	1,984	9,828	30,324	
Accumulated amortization						
Balance, April 1, 2012	12,191	3,918	1,577	4,869	22,555	
Amortization	681	210	112	930	1,933	
Balance, March 31, 2013	12,872	4,128	1,689	5,799	24,488	
Net book value – March 31, 2013	\$ 1,136	376	295	4,029	5,836	

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11. INTEREST INCOME (EXPENSE) AND INVESTMENT INCOME

Interest income, expense and investment income are budgeted as net margin; however, they are recorded as gross loan interest, investment income and interest expense in the financial statements.

(\$,000)	2014	2014	2013
	Budget		
Loan interest revenue	\$ -	\$ 159,422	\$ 140,767
Investment income	-	7,291	19,247
Loan interest expense	-	(154,379)	(146,199)
Net interest margin	\$ 15,630	\$ 12,334	\$ 13,815

The breakdown of interest expense on debt is as follows:

(\$,000)	2014	2013
Interest re: Capital funding		
Province of Ontario loan	\$ 8,138	\$ 7,957
Ontario Clean Water Agency loan	1,410	1,416
	\$ 9,548	\$ 9,373

(\$,000)	2014	2013
Interest re: Program funding		
Commercial Paper	\$ 7,215	\$ 6,769
Infrastructure Renewal Bonds	46,007	55,850
OIPC/OILC Bonds and FRNs	81,976	67,702
Ontario Immigrant Investor Corporation loans	9,633	6,505
	\$ 144,831	\$ 136,826
Total interest expense	\$ 154,379	\$ 146,199

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(\$,000)	2014	2013
Cash interest received	\$ 180,993	\$ 161,189
Cash interest paid	(168,926)	(156,310)
	12,067	4,879
Investment income and non-cash interest		
Gain/(loss) on sale of investments	(6,240)	2,394
Amortization of loan concession costs (Note 4)	9,125	9,995
Other non cash interest expense	(2,618)	(3,453)
Net interest and investment income	\$ 12,334	\$ 13,815

Other non cash interest and investment income includes net interest accrued (revenue and expense), and the amortization of premiums and discounts on purchase of investments.

12. GENERAL ADMINISTRATION EXPENSES

(\$,000)	2014	2014	2013
	Budget		
Communications	\$ 319	\$ 166	\$ 176
Information technology	7,884	6,455	7,470
Office and administration	2,046	1,539	1,391
Premises	5,207	5,082	5,535
Professional and consulting services	5,042	4,403	2,800
Amortization	1,931	1,779	1,933
	\$ 22,429	\$ 19,424	\$ 19,305

13. RELATED PARTY TRANSACTIONS

The Agency is economically dependent on the Province as 46% of its revenue for the year ended March 31, 2014 (2013 - 47%) was received from the Province for the provision of services to various Ontario Crown Agencies and Ministries, including the Ministry of Health and Long Term Care, the Ministry of the Attorney General, the Ministry of Government Services, the Ministry of Community Safety and Correctional Services, and the Ministry of Transportation, in addition to Ministry of Infrastructure.

Infrastructure Ontario's prime sources of revenue from the Province were:

1. Project delivery fees
Fees based on a percentage of project costs are charged for services, including project management, contract management and development related to public works, provided to various Ontario Crown Agencies and Ministries.
2. Management fees
Fees charged for services, including property and project management, provided to the Ministry's General Real Estate Portfolio.
3. Recoverable costs
Certain projects and services are provided to various ministries on a cost recovery basis.

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Infrastructure Ontario has interest bearing loans from the OCWA, the Province of Ontario, OIIC and OFA (Notes 8 and 9).

Infrastructure Ontario has incurred costs for services from OFA of \$0.93 million (2013 - \$0.92 million).

14. FUTURE EMPLOYEE BENEFITS

The Agency provides pension benefits to certain of its full-time employees through participation in the Public Service Pension Plan, which is a multi employer defined benefit plan established by the Province. The contribution to the pension plan of \$0.5 million (2013 - \$0.6 million) is based on formulas set by the Ontario Pension Board and has been expensed. The cost of post-retirement, non-pension employee benefits for these employees is paid by the Ministry of Government Services and is not included in the financial statements.

The Agency provides a defined contribution pension plan for all other full-time employees. The Agency's contribution to this plan for the year ended March 31, 2014 were \$2.5 million (2013 - \$2.3 million).

15. RISK MANAGEMENT

The principal risks that Infrastructure Ontario is exposed to as a result of holding financial instruments are credit, market, liquidity and interest rate risks. The Risk Committee reviews and the Board of Directors approve policies for managing each of these risks which are summarized below.

Credit risk

Credit risk is the risk of loss arising from counterparty's inability to fulfill its financial contractual obligations to Infrastructure Ontario. The Agency is primarily exposed to credit risk on loans receivables, cash accounts and other receivables, and investments. The Agency manages and controls credit risk through the implementation of policies and review processes.

Credit risk – Loans receivables

Oversight of the credit risk of the Lending Program is the primary concern of the Risk Committee of the Board of Directors.

The Credit Risk Policy ensures that loan amounts are commensurate with both the borrower's ability to service debt and Infrastructure Ontario's own risk tolerance. The Credit Risk Policy establishes principles for evaluating credit risk for each sector of borrowers and establishes maximum loan concentration limits for the risk and subsequent debt service capacity of the borrower. Separate underwriting and credit functions exist to ensure an independent review and challenge through the adjudication process. Due diligence is conducted and a final scoring and recommendation for each applicant is presented to the management Credit Review Committee and to the Board of Directors for approval, if necessary, based on Infrastructure Ontario's Delegation of Authority.

Infrastructure Ontario has a risk based loan review process that covers all lending sectors and provides early identification of possible changes in the credit worthiness of counterparties. The objectives of the loan review are to: assess the status of funded projects in construction; ensure payment and covenant compliance over the term of the loan; initiate timely corrective action to minimize any potential credit loss and escalate potential loan repayment issues to the management Credit Review Committee and the Board of Directors.

Infrastructure Ontario's maximum exposure to credit risk on loans receivables, excluding derivatives and without taking into account any collateral held or other credit enhancements, as at March 31, 2014 was \$4,802.8 million. There are no loans past due.

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Infrastructure Ontario classifies and manages its loans by tiers. Tier one borrowers have a tax base and receive provincial transfers which provide a strong source of debt repayment. Tier two borrowers are in industries which are either regulated or entitled to government based revenue contracts and therefore have a stable source of debt repayment. Tier three borrowers are organizations dependent on self generated revenues either by market-set prices or donations and fund raising.

The public sector nature of Infrastructure Ontario's borrowers present a low level of credit risk due to the unique ability of the borrowers to generate or receive revenue for essential public services or from low risk business models that serve the public sector interest. The profile of the loans receivables at March 31, 2014 is as follows:

(\$,000)	Gross Outstanding	Loan Valuation Allowance	Net
Tier 1			
Municipalities	\$ 3,134,906		
Universities	176,705		
Local Service Boards	393		
	3,312,004	-	3,312,004
Tier 2			
MaRS	215,526		
Local Distribution Corps.	240,756		
Long Term Care	161,771		
Affordable Housing (CMHC)	126,698		
Affordable Housing (no CMHC)	246,651		
Social Housing	249,014		
Aboriginal Health Access Centres	6,977		
Community Health & Social Service Hubs	4,665		
	1,252,058	(3,731)	1,248,327
Tier 3			
Power Generators	120,195		
District Energy	28,036		
Municipal Corporations (Other)	33,407		
Beneficial Entities (Arts Training, Hospices, etc.)	123,638		
Sports and Recreation	3,119		
	308,395	(7,313)	301,082
Deferred costs on concessionary loans			
Deferred costs, beginning of year	(67,741)		(67,741)
Amortization of concession costs	9,125		9,125
Deferred costs, end of year	(58,616)	-	(58,616)
Loans receivables	\$ 4,813,841	(11,044)	4,802,797

Collateral

Infrastructure Ontario lends on the strength of applicants' ability to service loan payments over time. The Agency does not lend on a residual asset value basis and does not factor in possession or control of an asset in the evaluation of debt service coverage. It lends on the basis of a strong assurance of permanent sources of cash flow, namely the unique position of many borrowers to generate tax revenue or receive funding from the Province. Infrastructure Ontario mitigates its credit risk with the loan portfolio through various mitigation controls provisions. The Agency has an intercept mechanism with the Province which allows for funds owing to a borrower that receives funding from the Province to be redirected to Infrastructure Ontario. Clients that do not receive provincial funding are required to provide adequate security such as: guarantees, first ranking

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mortgage/charge, general security agreement, assignment of rents and leases and assignment of accounts and agreements and collateral.

Impairment

The loan valuation allowance is maintained at a level that Infrastructure Ontario considers adequate to absorb valuation adjustments and losses on loans based on current income conditions.

The loan valuation allowance is based on an assessment of existing economic, industry and portfolio conditions which may indicate that valuation is impaired or losses incurred. The loan valuation allowance is underpinned by a risk rating process in which risk ratings are assigned at the time of loan origination, monitored on an ongoing basis, and adjusted to reflect changes in underlying credit risk. A number of factors are considered when determining the appropriate level of the loan valuation allowance, including sensitivity to risk ratings, industry sectors, portfolio quality, business mix, and economic and credit market condition.

Credit risk – Cash, Receivables and Investments

Infrastructure Ontario's maximum exposure to credit risk on the cash, receivables and investments, excluding derivatives and without taking into account any collateral held or other credit enhancements, as at March 31, 2014 was:

	2014		Past Due
(\$,000)			
Cash and cash equivalents	\$	787,321	\$ -
Accounts receivables		152,448	34,352
Interest receivable		59,038	-
Investment income receivable		1,919	-
Projects receivables		108,009	-
Investments		225,917	-
	\$	1,334,652	\$ 34,352

There is no valuation allowance provided against cash, receivables and investments at March 31, 2014.

Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market prices. Market risk includes interest rate risk. The Agency has market risk on investments purchased as an economic hedge against borrowed funds that are surplus to immediate lending requirements. These investments are sold as required in order to fund loans. The entity only invests in bonds with a AA credit rating or higher and that are readily liquidated. The short term nature of these investments also mitigates this risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises when the re-pricing of assets is not aligned with the re-pricing of liabilities. For example, in its lending portfolio, if the Agency lends for a 20-year term (assets) and the debt that it issues to obtain the funds (liabilities) has a shorter term, it may have to issue the debt several times over the life of the asset. Each time the debt is rolled over or re-financed, there is a risk that interest rates will have risen, resulting in either lower net interest income or, if the Agency is lending at a rate below its borrowing cost, a greater net loss.

Management controls interest rate risk through the alignment of asset and liability maturities and by employing interest rate swap derivatives. For instance, management has mitigated most of its interest rate risk on its Capital funding by investing in offsetting investments with rates that match the loans from the Province and OCWA.

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Infrastructure Ontario is exposed to interest rate fluctuations during the period between the issuance of long term debt and issuing loans. To manage this interest rate risk, Infrastructure Ontario invests in bonds with similar maturities to offset the interest rate risk until funds are loaned out.

For the floating rate construction loan portfolio, interest rate risk has been kept to a minimum by employing similar maturity short-term funding in support of these loans. Management of the interest rate risk on the long-term fixed rate loans on the other hand is accomplished through a combination of the use of similar maturity funding and employing interest rate swap derivatives through OFA, given that more exact matching of asset and liability maturities is not possible for these loans as it is with the Capital funding and construction loan portfolios.

Infrastructure Ontario's Asset-Liability Management Policy requires continuous monitoring and reporting of the interest rate risk position to senior management and the Risk Committee of the Board of Directors. The Asset-Liability Management Policy provides senior management with the tools to manage interest rate risk and the authority to instruct OFA Capital Markets staff to execute financial transactions to manage interest rate risk, including the use of derivatives. The Agency manages to a strict interest rate risk limit which specifies the maximum expected loss under a presumed 100 basis point shift in interest rates and further limits the potential for loss exposure by minimizing exposures to any particular key rate point on the yield curve.

Sensitivity to variations in interest rates

The sensitivity of a +/- 1% and 1basis point (bp) change in the interest rates would have the following impact on the annual surplus (deficit) and accumulated re-measurement gains (losses):

(Decrease)/increase in interest rate	Impact	
	Statement of operations	Re-measurement gains/losses
(\$,000,000)		
-1% / +1%	(0.9) / (0.8)	
-1bp / +1bp		(0.9) / 0.9

Liquidity risk

Liquidity risk is the risk that Infrastructure Ontario will not be able to meet its financial obligations as they become due. Its lenders are protected by the Capital funding, funded by long-term subordinated loans provided by the Province and OCWA. The Capital funding is invested in short-term, liquid instruments that can be converted to cash in the event of any foreseeable liquidity crisis (for example, failure of an Infrastructure Ontario debt issue to close when expected, disruption to the short-term commercial paper debt issuance program, or large unanticipated client cash requirements).

The primary objectives for the investment strategy are to maintain safety of the principal and provide flexibility and liquidity with respect to the reserve. The Asset Liability Management Policy establishes limits on the type and tenor as a percentage of total holdings of all investments and complies with the *Financial Administration Act 1990* of the Province.

Infrastructure Ontario's Borrowing By-law is approved by the Board of Directors and the Ministers of Infrastructure and Finance on an 18-month basis. Borrowing is reviewed with the Risk Committee of the Board on a quarterly basis. All borrowing is made with prudent consideration of interest rate and liquidity risks and complies with the Asset Liability Management Policy. OFA coordinates and executes all borrowing activities. Infrastructure Ontario borrows directly from the Province for its long-term funding needs through OFA.

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In addition to the Asset Liability Management Policy's directives on liquidity management, the Agency has a Capital Management Policy, under the oversight of the Risk Committee of the Board of Directors to ensure continued market liquidity. The Capital Management Policy's limits ensure that at all times there is sufficient risk reserve capital to prevent extreme loan losses scenarios from impacting investors in Infrastructure Ontario's commercial paper or Infrastructure Renewal Bonds. By maintaining an appropriate amount of capital for the loan risk assumed, Infrastructure Ontario's "AA" credit rating and thus its continuous ability to borrow funds from the capital markets through OFA will be retained.

The following illustrates the maturities of contracted obligations at March 31, 2014:

(\$,000)	6 to 12 months	1 to 5 years	Over 5 years	Total
Accounts payables	\$ 70,042	-	-	70,042
Accrued liabilities	67,239	-	-	67,239
Interest payable	39,660	19,562	-	59,222
OFA credit facility	15,000	10,000	-	25,000
Debt – loan program	659,241	2,099,342	2,984,570	5,743,153
Undisbursed loan commitments (Note17)				983,000
Total non-derivative financial liabilities	\$ 851,182	2,128,904	2,984,570	6,947,656

16. CONTINGENCIES

The Agency is involved in various disputes and litigation. In the opinion of management, the resolution of disputes against the Agency, including those provided for, will not result in a material effect on the consolidated financial position of the Agency.

17. COMMITMENTS

Loan Program:

(\$,000)	Approved Financing	Funds Advanced
Program year		
2004 - 2005	\$ 582,000	\$ 468,000
2005 - 2006	319,000	261,000
2006 - 2007	49,000	40,000
2007 - 2008	434,000	394,000
2008 - 2009	648,000	602,000
2009 - 2010	1,039,000	934,000
2010 - 2011	1,046,000	862,000
2011 - 2012	874,000	796,000
2012 - 2013	670,000	541,000
2013 - 2014	593,000	373,000
	\$ 6,254,000	\$ 5,271,000

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Minimum base rent annual payments under operating leases for the Agency's office space for the next five years:

(\$,000)

Fiscal year

2014 – 2015

2015 – 2016

2016 – 2017

2017 – 2018

2018 – 2019

Thereafter

Amount	
\$	4,278
	4,577
	4,898
	5,241
	5,608
	-
\$	24,602

18. FUNDS HELD IN TRUST

Infrastructure Ontario maintains several operating bank accounts and one short-term investment account, which it holds in trust and administers on behalf of the Ministry. The accounts relate directly to the operations of the Ministry's General Real Estate Portfolio, for which the Agency is the financial manager pursuant to the Ontario Infrastructure and Lands Corporation Act, 2011. The funds held in trust for the Ministry at March 31, 2014 were \$197.9 million (2013 - \$157.6 million), and are not recorded in these financial statements.

Infrastructure Ontario is required by the Canadian Mortgage of Housing Corporation (CMHC) to collect property taxes and reserve funds as a condition of providing affordable housing loans. As part of the CMHC certificate of insurance, the funds need to be set up in a trust account and administered by Infrastructure Ontario. At March 31, 2014 the funds under administration were \$14.2 million (2013 - \$1.3 million).

Infrastructure Ontario maintains a project trust account to record funds received from Ministries and payable to project construction consortiums related to project substantial completion payment, interim payment, relief payment, variations, and furniture, fixture and equipment payments. Variations are changes to scope agreed to after the initial contract has been executed— also called contract change orders. All the above payments are paid directly by the sponsoring ministry, but flow through Infrastructure Ontario. At March 31, 2014, Infrastructure Ontario held \$28.2 million in its project trust account including: \$10.2 million for Pan Am Athletes Village project including \$0.2 million accumulated interest, \$2.6 million relating to relief payments for the St. Thomas, Waterloo and Thunder bay Courthouse Development Projects, \$1.5 million for Thunder Bay Consolidated Courthouse and \$0.2 million relates to the South West Detention Centre project. The remaining \$13.7 million held in this project trust account is related to variations, and furniture, fixture and equipment for various projects.

19. ECONOMIC DEPENDENCE

As disclosed in Note 13, Infrastructure Ontario is economically dependent on the Province as a significant portion of revenue is from services provided to various Ministries and Ontario Crown Agencies.

Based on the Province's support in providing a multi-year commitment for public infrastructure projects and providing a 50 year loan, Infrastructure Ontario is considered a going concern.

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
March 31, 2014 and 2013

20. SEGMENTED INFORMATION

Infrastructure Ontario's reporting structure reflects how the business is managed and how operations are classified for planning and measuring performance. Infrastructure Ontario realigned the segmented information in the current year to reflect changes to how the business is managed. Comparative figures have been reclassified to conform to the current year presentation. The table below is a summary of financial information by segment:

	Year-ended March 31 2014			
	Project Delivery	Lending	Real Estate Management and Planning	Consolidated
(\$,000)				
Revenue				
Interest revenue	\$ -	159,422	-	159,422
Investment income	-	7,291	-	7,291
Project delivery fees	62,516	-	8,358	70,874
Management fees	-	-	40,106	40,106
Recoverable costs	33,654	-	-	33,654
Other income	-	2	-	2
	96,170	166,715	48,464	311,349
Expenses				
Salaries and benefits	25,220	4,064	28,746	58,030
General and administration	6,917	3,429	9,078	19,424
Program Expenses				
Project advisory fees	36,473	-	-	36,473
Interest expense	-	154,379	-	154,379
Loan valuation allowance	-	7,230	-	7,230
Sub-contracting fees	-	-	9,664	9,664
Project funding expenses	1,283	-	-	1,283
Total program expenses	37,756	161,609	9,664	209,029
	69,893	169,102	47,488	286,483
Surplus/(deficit)	\$ 26,277	(2,387)	976	24,866

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
March 31, 2014 and 2013

Year-ended March 31 2013				
(\$,000)	Project Delivery	Lending	Real Estate Management and Planning	Consolidated (Note 22)
Revenue				
Interest revenue	\$ -	140,767	-	140,767
Investment income	-	19,247	-	19,247
Project delivery fees	62,929	-	11,486	74,415
Management fees	-	-	41,871	41,871
Recoverable costs	75,366	-	-	75,366
Other income	10	1,285	-	1,295
	138,305	161,299	53,357	352,961
Expenses				
Salaries and benefits	23,066	4,893	27,100	55,059
General and administration	7,059	3,213	9,033	19,305
Program Expenses				
Project advisory fees	89,156	-	-	89,156
Interest expense	-	146,199	-	146,199
Loan valuation allowance	-	114	-	114
Sub-contracting fees	-	-	9,108	9,108
Project funding expenses	1,969	-	-	1,969
Total program expenses	91,125	146,313	9,108	246,546
	121,250	154,419	45,241	320,910
Surplus	\$ 17,055	6,880	8,116	32,051

INFRASTRUCTURE ONTARIO
NOTES TO FINANCIAL STATEMENTS
March 31, 2014 and 2013

21. SUBSEQUENT EVENTS

Debt restructuring

Subsequent to March 31, 2014, Infrastructure Ontario restructured its debt. Previously, Infrastructure Ontario issued commercial paper to the capital markets to fund its short term construction loans. Subsequent to March 31, 2014, Infrastructure Ontario started funding short term construction loans with a new short term credit facility from the Province. Interest charged on the facility is similar to that currently paid on commercial paper.

It is expected that the commercial paper held at March 31, 2014 will be held until maturity (April 2014 – June 2014) but that all new borrowings from May 27, 2014 will be made from the new credit facility.

Repayment of OFA Credit Facility

Subsequent to March 31, 2014, Infrastructure Ontario repaid \$15.0 million on the OFA credit facility in April 2014.

22. COMPARATIVE FIGURES

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

**Ministry of
Municipal Affairs
and Housing**Ontario Mortgage and
Housing Corporation777 Bay Street, 2nd Floor
Toronto ON M5G 2E5
Tel: (416) 585-6731
Fax: (416) 585-7330**Ministère des
Affaires municipales
et du Logement**Société ontarienne
d'hypothèques et de logement777, rue Bay, 2^e étage
Toronto ON M5G 2E5
Tél: (416) 585-6731
Télécopieur: (416) 585-7330**Management's Responsibility for Financial Statements**

The accompanying financial statements of the Ontario Mortgage and Housing Corporation have been prepared in accordance with Canadian public sector accounting standards 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 18, 2014.

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 a periodic basis and reports its findings to management and to the Board of Directors.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Board of Directors reviews and approves the financial statements.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Independent Auditor's Report, which appears on the following page, outlines the scope of the Auditor General's examination and opinion.

On behalf of Management,

A handwritten signature in blue ink, appearing to read "Alison Coke".

Alison Coke
Chief Executive Officer



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Mortgage and Housing Corporation
and to the Minister of Municipal Affairs and Housing

I have audited the accompanying financial statements of the Ontario Mortgage and Housing Corporation, which comprise the statement of financial position as at March 31, 2014, and the statements of operations and accumulated deficit, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Mortgage and Housing Corporation as at March 31, 2014 and the results of its operations and accumulated deficit, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Future of the Corporation

While not impacting my opinion, I draw attention to Note 11, which describes the planned merger with the Ontario Mortgage Corporation.

Toronto, Ontario
June 18, 2014

Gary Peall, CPA, CA, LPA
Deputy Auditor General

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ONTARIO MORTGAGE AND HOUSING CORPORATION

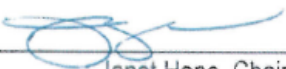
Statement of Financial Position

As at March 31, 2014

	March, 31, 2014 (\$ 000)	March 31, 2013 (\$ 000)
Liabilities		
Accounts payable and accrued liabilities (Note 4)	9,977	11,645
Long-term debts (Note 5)	468,844	529,200
	<u>478,821</u>	<u>540,845</u>
Financial Assets		
Cash	1,442	1,337
Accrued interest from Universities & Colleges	191	214
Due from Province of Ontario	8,677	10,704
Investments in student housing properties (Note 3)	11,672	13,154
	<u>21,982</u>	<u>25,409</u>
Net Debt and Accumulated Deficit	<u>(456,839)</u>	<u>(515,436)</u>
Contingent Liabilities (Note 6)		

The accompanying notes are an integral part of these financial statements.

On behalf of the Board:


Janet Hope, Chair


Alison Coke, Chief Executive Officer

ONTARIO MORTGAGE AND HOUSING CORPORATION

Statement of Operations and Accumulated Deficit

For the year ended March 31, 2014

	Budget (\$ 000)	2014 (\$ 000)	2013 (\$ 000)
Revenue			
Subsidies from Province:			
Debt service obligations	91,990	91,990	93,271
Environmental Remediation (Note 6b)	312	1,794	2,920
Interest received from Student Housing	804	804	896
Miscellaneous	10	40	310
Total revenues	93,116	94,628	97,397
Expenses			
Debentures Interest:			
Devolved properties	33,115	33,115	37,070
Student housing	804	804	896
Environmental Remediation (Note 6b)	312	2,108	2,973
Miscellaneous	10	4	2
Total expenses	34,241	36,031	40,941
Excess of Revenues over Expenses (Note 7)	58,875	58,597	56,456
Accumulated Deficit, beginning of year	(515,436)	(515,436)	(571,892)
Accumulated Deficit, end of year	(456,561)	(456,839)	(515,436)

The accompanying notes are an integral part of these financial statements.

ONTARIO MORTGAGE AND HOUSING CORPORATION**Statement of Cash Flows****For the year ended March 31, 2014**

	2014 (\$ 000)	2013 (\$ 000)
Operating transactions		
Annual Surplus	58,597	56,456
Collection of Interest for Ontario Student Housing	23	21
Decrease in Due from the Province of Ontario	2,027	(744)
Decrease in Accounts Payable and Accrued Liabilities	(1,668)	(342)
Cash provided by operating transactions	<u>58,979</u>	<u>55,391</u>
Financing Transactions		
Collection of Ontario Student Housing Long-Term Debt	1,482	1,391
Collection of Non-Profit Housing Fund Debt		
– Province	-	6,694
– University and Colleges	-	24,910
Long-Term Debt Repayment		
– Province	(6,435)	(6,190)
– CMHC	(53,921)	(51,402)
Non-Profit Housing Fund Debt Repayment		
– CPP	-	(31,604)
Cash applied to financing transactions	<u>(58,874)</u>	<u>(56,201)</u>
(Decrease)/Increase in Cash	105	(810)
Cash Balance at Beginning of Year	1,337	2,147
Cash Balance at End of Year	<u>1,442</u>	<u>1,337</u>

The accompanying notes are an integral part of these financial statements.

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to the Financial Statements

For the year ended March 31, 2014

1. Nature of Operations

Under the *Social Housing Reform Act 2000*, the Corporation transferred, for no consideration, ownership of public housing units to Local Housing Corporations (“LHCs”) which are controlled by Municipal Services Managers. The Corporation retained its Investment in Student Housing and certain other assets, and responsibility for administering the Corporation’s debts, and contingent liabilities. The Ontario Ministry of Municipal Affairs and Housing (“the Ministry”) provides the Corporation with subsidies to cover its debt service payments and other expenses.

2. Significant Accounting Policies

Significant accounting policies followed by the Corporation are summarized below:

(A) BASIS OF ACCOUNTING

These financial statements are prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board.

(B) REVENUES

Subsidies from the Province are accounted for as revenue, and revenue is recognized when the related expenses are incurred.

(C) EXPENSES

Expenses are reported on an accrual basis as incurred. These expenses include debt servicing cost such as interest expenses and costs relating to environmental remediation for properties formerly owned by the Corporation.

(D) FINANCIAL INSTRUMENTS

- Cash and Cash Equivalents

Cash and cash equivalents include cash on hand.

- Loans and Receivables

Accrued Interest from Universities and Colleges, due from Province of Ontario, Investments in Student Housing Properties (note 3) and Interest Receivable are measured at amortized cost.

- Debt and other Financial Liabilities

Long-Term Debt, which consists of loans from the Province and Canada Mortgage and Housing Corporation debentures (note 5) is measured at amortized cost.

Accounts Payable and Accrued Liabilities (note 4) are measured at cost.

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to the Financial Statements For the year ended March 31, 2014

2. Significant Accounting Policies (Continued)

(E) ACCUMULATED DEFICIT

The Accumulated Deficit that resulted from the transfer of properties to LHC's for no consideration is reduced each year by an amount equal to the portion of the subsidy from the Province required to cover principle payments on the Corporation's long-term debt.

(F) STATEMENT OF CHANGES IN NET DEBT

A Statement of Changes in Net Debt has not been included in these financial statements because the information it would provide is readily apparent from the other financial statements.

3. Investments in Student Housing Properties

The Corporation's investments in student housing properties represents funds advanced to universities and colleges to cover building costs for student accommodation projects. Each advance is associated with a specific long-term debt obligation of the Corporation and each educational institution makes semi-annual payments to the Corporation equal to the payments on the Corporation's corresponding long-term debt. When the debt is fully repaid, title to the properties will be transferred to the respective institutions.

	March 31, 2014 (\$ 000)	March 31, 2013 (\$ 000)
Original Cost	35,115	35,115
Less: Accumulated Capital Repayments	23,443	21,961
	<u>11,672</u>	<u>13,154</u>

4. Accounts Payable and Accrued Liabilities

Most of the Accounts Payable and Accrued Liabilities balance is comprised of accrued interest payable on the Corporation's Long-Term Debt.

5. Long Term Debt

Long term debt is comprised of the following:

	March 31, 2014 (\$ 000)	March 31, 2013 (\$ 000)
Canada Mortgage and Housing Corporation	419,608	473,528
Loans Repayable to the Province	49,236	55,672
	<u>468,844</u>	<u>529,200</u>

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to the Financial Statements

For the year ended March 31, 2014

5. Long Term Debt (Continued)

The Corporation borrowed funds from the Canada Mortgage and Housing Corporation ("CMHC") and received capital funds from the Province to finance investments in real property – now devolved to the LHCs. The capital funds provided by the Province have been reclassified as Loans Repayable to the Province, with interest and principal payments being made to the Ontario Ministry of Finance. The interest expense is included in the Statement of Operations and Accumulated Deficit and is off-set by the subsidy from the Ontario Ministry of Municipal Affairs and Housing.

Interest on both the CMHC debt and the Loans Repayable to the Province are payable at various rates based on individual agreements – the average rates are 6.33% and 7.04% respectively (2013 – 6.40% and 7.05% respectively). Interest expense for March 31, 2014 totaled \$33.9 million; (2013 – \$37.9 million), \$3.9 million (2013 – \$4.4 million) of which was paid to the Province.

Scheduled payments over the next five years and thereafter are as follows:

	Gross Payments	Principal Payments
	(\$ 000)	(\$ 000)
2015	92,643	64,448
2016	87,026	63,540
2017	78,293	59,212
2018	71,564	56,754
2019	64,375	53,636
Thereafter	127,311	109,595

6. Contingent Liabilities

(A) GUARANTEED DEBT

The Corporation previously entered into loan insurance agreements with CMHC pertaining to mortgage loans on projects funded under various provincially-funded non-profit housing programs administered by the Ministry. Under these agreements, CMHC has insured mortgage loans made by lenders approved under the *National Housing Act* for the purpose of purchasing, improving, constructing or altering housing units. While the insurance is provided by CMHC, the Corporation is liable to CMHC for any net costs, including any environmental liabilities, incurred as a result of the loan defaults.

The Corporation would request that the Ministry reimburse any costs incurred by the Corporation. As of March 31, 2014, there were \$5.85 billion (2013 – \$6.12 billion) of mortgage loans outstanding on provincially funded projects. To date, there have been no claims for defaults on the insured mortgage loans.

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to the Financial Statements

For the year ended March 31, 2014

6. Contingent Liabilities (Continued)

(B) CONTAMINATED SITES

The Corporation retains potential liability for cleaning up environmental contaminants of former public housing properties under the *Environmental Protection Act*, as noted in the former *Social Housing Reform Act, 2000* and maintained in the *Housing Services Act, 2011*. Although the total cost of potential remediation is unknown, the

Ministry reimburses the Corporation for costs incurred. Cumulative expenditures for site remediation to March 31, 2014 are \$11.9 million (2013 – \$9.8 million).

The Corporation had no outstanding claims as at March 31, 2014. Regent Park, formerly owned by the Corporation, is being re-developed by the Toronto Community Housing Corporation (TCHC). Based on the redevelopment plan prepared by TCHC, it is expected to take up to 15 years for the redevelopment of Regent Park and environmental remediation may be required at each stage of redevelopment. Given the nature of environmental remediation, a reasonable estimate of future costs cannot be made at this time. The Ministry is currently working to determine the future costs of environmental remediation of contaminated sites, and these costs will be reflected in the 2014-15 financial statements in accordance with the new accounting standard PSAB 3260 Liability for Contaminated Sites.

7. Excess of Revenues over Expenses

The subsidies from the Province include amounts intended to cover the interest and principal payments on the Corporation's long-term debt. The interest is included in the Corporation's expenses and the excess of revenues over expenses represents the principal payments.

8. Related Party Transactions

The Corporation is controlled by the Province and is therefore a related party to other organizations that are controlled by or subject to significant influence by the Province. Transactions with related parties were:

(A) LOANS TO ONTARIO COLLEGES

As of March 31, 2014, the outstanding balance due from colleges with respect to Student Housing loans (note 3) was \$705,000 (2013 - \$758,000). Total interest and principle payments received from colleges was \$108,000 (2013 - \$25,573,000 of which \$108,000 and \$25,465,000 was for repayment of Student Housing loans and Non-Profit Housing Fund mortgages respectively).

(B) ADMINISTRATIVE EXPENSES

The Ministry provides administrative services to the Corporation at no charge. The Corporation does not have any payroll expense as all personnel are the Ministry's employees and are paid by the Ministry.

ONTARIO MORTGAGE AND HOUSING CORPORATION

Notes to the Financial Statements

For the year ended March 31, 2014

9. Risk Management

Information about the Corporation's financial instruments and risks is as follows.

The Corporation is not exposed to significant credit risk as amounts classified as loans and receivables are due primarily from the Province and publicly-funded Ontario colleges and universities. The Corporation is also not exposed to significant liquidity risk or interest rate risk. These risks are borne by the Province.

10. Budgeted Figures

Budgeted figures were prepared by the Corporation and approved by the Minister of Municipal Affairs and Housing.

11. Merger of Ontario Mortgage and Housing Corporation and Ontario Mortgage Corporation

On March 15, 2011, the Ontario Government announced its plan to reduce the number of agencies and the potential merger of the Ontario Mortgage and Housing Corporation and the Ontario Mortgage Corporation. The approval of the Legislature would be required.

ONTARIO NORTHLAND TRANSPORTATION COMMISSION

Ontario Northland Transportation Commission financial statements for the year ended March 31, 2014 were not available at the time of printing. When available, they will be posted to the website: www.fin.gov.on.ca/en/ .

ONTARIO PLACE CORPORATION

Ontario Place Corporation financial statements for the year ended December 31, 2013 were not available at the time of printing. When available, they will be posted to the website: www.fin.gov.on.ca/en/.



Management Report

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Power Authority are the responsibility of management and have been prepared in accordance with Canadian Public Sector Accounting Standards. The significant accounting policies followed by the Ontario Power Authority are described in Note 2 of the financial statements. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions believed to be reasonable.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting. The system of internal controls we have established is designed to provide reasonable assurance over safeguarding of assets and the reliability of financial reporting and preparation of financial statements. The system includes formal policies and procedures and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by KPMG LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with the accounting standards used by management. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

ONTARIO POWER AUTHORITY

On behalf of management,

A handwritten signature in black ink, reading "Colin Andersen".

Colin Andersen
Chief Executive Officer

A handwritten signature in black ink, reading "K. Marshall".

Kimberly Marshall
Vice-President, Business Strategies & Solutions



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Power Authority

We have audited the accompanying financial statements of Ontario Power Authority, which comprise the statement of financial position as at December 31, 2013, the statements of operations, changes in net assets and cash flows for the year ended December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG Network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



Page 2

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Power Authority as at December 31, 2013, and its results of operations, its changes in net assets and its cash flows for the year ended December 31, 2013 in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

February 25, 2014
Toronto, Canada



Financial Statements

Statement of Financial Position (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$76,140	\$315,631
Accounts receivable (note 3)	438,183	546,963
Prepaid expenses	359	564
	514,682	863,158
Capital assets (note 4)	4,463	6,628
Total assets	\$519,145	\$869,786
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$362,031	\$474,839
Operating loan (note 13)	-	60,000
Contract deposits (note 6)	23,239	28,996
Other liabilities	593	105
	385,863	563,940
Deferred rent inducement, net (note 7)	258	403
Other financial liabilities (note 8)	99,237	289,918
Net assets:		
Internally restricted Conservation funds (note 9)	9,534	9,939
Invested in capital assets	4,463	6,628
Accumulated operating surplus (deficit)	19,790	(1,042)
	33,787	15,525
Commitments (note 7)	-	-
Contingencies and guarantees (note 14)	-	-
Total liabilities and net assets	\$519,145	\$869,786

See accompanying notes to financial statements.

Statement of Operations (in thousands of dollars)

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Revenue:		
Fees (note 13)	\$75,934	\$76,298
Registration fees (note 6)	1,720	(1,456)
Interest income	-	666
Other income	794	102
	78,448	75,610
Expenses:		
Compensation and benefits	33,544	32,034
Professional fees	12,453	10,852
General operating costs (note 10)	10,943	11,742
Conservation funds expenses (note 9)	405	728
Amortization of capital assets	2,841	4,427
	60,186	59,783
Excess of revenue over expenses	\$18,262	\$15,827

See accompanying notes to financial statements.

Statement of Changes in Net Assets (in thousands of dollars)

Year ended December 31, 2013, with comparative figures for 2012

	Invested in Capital Assets	Internally Restricted (see note 9)	Accumulated Operat- ing Surplus (Deficit)	2013 Total Net Assets	2012 Total Net Assets
Balance, beginning of the year	\$6,628	\$9,939	\$(1,042)	\$15,525	\$(302)
Excess of revenue over expenses	(2,841)	-	21,103	18,262	15,827
Conservation funds expenses	-	(405)	405	-	-
Purchase of capital assets	676	-	(676)	-	-
Balance, end of the year	\$4,463	\$9,534	\$19,790	\$33,787	\$15,525

See accompanying notes to financial statements.

Statement of Cash Flows (in thousands of dollars)

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Cash flows from operating activities:		
Excess of revenue over expenses	\$18,262	\$15,827
Items not involving cash:		
Amortization of capital assets	2,841	4,427
Amortization of deferred rent inducement	(145)	(144)
Change in non-cash operating items (note 12)	(9,580)	(1,413)
	11,378	18,697
Cash flows from financing activities:		
Increase in other liabilities	488	22
Decrease in operating loan	(60,000)	(196,368)
Increase/(decrease) in other financial liabilities	(190,681)	264,130
	(250,193)	67,784
Cash flows from capital activities:		
Purchase of capital assets	(676)	(677)
	(676)	(677)
Increase/(decrease) in cash and cash equivalents	(239,491)	85,804
Cash and cash equivalents, beginning of year	315,631	229,827
Cash and cash equivalents, end of year	\$76,140	\$315,631

See accompanying notes to financial statements.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

1) NATURE OF OPERATIONS:

The *Electricity Restructuring Act, 2004* established the Ontario Power Authority (OPA) as a non-share corporation on December 20, 2004. The OPA is an independent non-profit, non-taxable corporation. The OPA is not a Crown agent and recovers its costs through fees approved by the Ontario Energy Board (OEB) and through charges to the electricity market through the global adjustment mechanism. In accordance with this act, the OPA's main objectives are:

- to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term
- to conduct independent planning for electricity generation, demand management, conservation and transmission, and to develop integrated power system plans for Ontario
- to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario
- to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources
- to establish system-wide goals for electricity to be produced from alternative energy sources and renewable energy sources
- to assist the OEB by facilitating stability in rates for certain types of customers
- to collect and provide to the public and the OEB information relating to medium- and long-term electricity needs of Ontario and to the adequacy and reliability of the integrated power system to meet those needs.

The OPA's ability to continue as a going concern is dependent on its ability to obtain financing to support operations. The OPA's creditworthiness is attested to by the following:

- the ability of the OPA to meet its obligations is provided for in legislation
- the OPA's minimal counterparty risk, given that its principal counterparty is the Independent Electricity System Operator (IESO), a creation of the province and a strong counterparty.

Due to the OPA's primary objectives, the OPA plans for revenues to fund expenses. Any variances that occur are addressed in the following year's revenue requirement submission. As of December 31, 2013, the Minister of Energy had not provided formal approval of the OPA's business plan or the OPA's proposed usage fee for 2014. However, on December 19, 2013, the OEB approved an interim fee until such time as the OPA's revenue requirement submission is filed and decided upon. This rate is effective January 1, 2014.

During 2012, the Province of Ontario announced a plan to merge the OPA and the IESO. In December 2012, the Premier prorogued parliament thereby terminating the legislation to enact the merger. Since the merger would require the introduction and passing of a new bill, the likelihood and timing of a merger is indeterminable at this time.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

2) SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (Standards) including the 4200 standards for government not-for-profit organizations.

(b) Revenue recognition:

Fees earned by the OPA are based on OEB-approved rates for electricity withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the year in which it is earned.

Amounts received in the current year that relate to services and programs to be approved and/or provided in future periods are deferred until they are approved and/or provided.

(c) Cash and cash equivalents:

Cash and cash equivalents comprise bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 90 days.

(d) Capital assets:

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated service lives, as follows:

Assets	Estimated Average Service life
Furniture and equipment	10 years
Computer hardware	4 years
Computer software	3 to 5 years
Audio-visual equipment	10 years
Telephone system	5 years
Leasehold improvements	Term of lease

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(e) Employee pension benefits:

The OPA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the OPA does not have sufficient information to apply defined benefit plan accounting to this pension plan.

The OPA is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Ontario Pension Board.

(f) Financial Instruments:

Financial instruments are recorded at fair value on initial recognition. Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

Long-term debt is recorded at cost.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- **Level 1** – unadjusted quoted market prices in active markets for identical assets or liabilities
- **Level 2** – observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities
- **Level 3** – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

(g) Measurement uncertainty:

Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

3) ACCOUNTS RECEIVABLE:

	2013	2012
Market contracts:		
Generation contracts	\$393,848	\$474,424
Conservation contracts	43,947	54,382
Renewable energy contracts	179	12,555
	<u>437,974</u>	<u>541,361</u>
Other	209	262
HST/GST receivable	-	5,340
	\$438,183	\$546,963

4) CAPITAL ASSETS:

	Cost	Accumulated amortization	2013 Net book value	2012 Net book value
Furniture and equipment	\$3,384	\$2,191	\$1,193	\$1,502
Computer hardware	4,807	4,480	327	224
Computer software	7,892	6,567	1,325	2,458
Audio-visual equipment	237	173	64	79
Telephone system	382	338	44	32
Leasehold improvements	5,190	3,680	1,510	2,333
	\$21,892	\$17,429	\$4,463	\$6,628

5) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	2013	2012
Accrued contract settlements	\$310,590	\$211,522
Other accrued liabilities	49,774	263,317
HST/GST payable	1,667	-
	\$362,031	\$474,839

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

6) CONTRACT DEPOSITS:

Program deposits:

The OPA receives performance security in the form of deposit amounts received from renewable energy supply, Feed-In Tariff (FIT) Program and demand response suppliers. For suppliers engaged in a contract that involves the construction of a new supply facility, the deposits are larger during the construction phase and are reduced once a project commences commercial operations. Deposits related to the FIT Program are submitted to the OPA with the supplier application and can be returned if one of the following occurs: (a) the supplier withdraws its application from the program, (b) the supplier obtains a contract with the OPA, or (c) the supplier's application is rejected by the OPA.

The deposits are classified as current liabilities as they can be replaced by a letter of credit by the supplier on request.

The new FIT Program that was initiated in October 2013 (FIT 3.0) does not require the collection of program deposits.

Program registration fees:

The OPA also requires a registration fee from applicants to some renewable energy programs. Changes to FIT Program Rules in 2012 affected the existing applicants to this program. As a result, registration fees were made available for refund. Refunds were recorded as debits to the registration fee income account resulting in a negative balance.

The FIT 3.0 program requires a registration fee from applicants as well; however, this fee is not intended to be refundable to applicants in accordance with the rules of this program.

7) DEFERRED RENT INDUCEMENT AND OPERATING LEASE COMMITMENTS:

The OPA has entered into various long-term lease commitments for office space, which include lease inducements. Deferred rent inducement represents the benefit of operating lease inducements amortized on a straight-line basis over the term of the lease. The OPA obtained an allowance for leasehold improvements of \$1,430. As at December 31, 2013, the deferred rent inducement, net of amortization, was \$258 (December 31, 2012 - \$403).

The OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2013, the accrued liability was \$125 (December 31, 2012 - \$189).

Lease commitments are set to terminate by October 2015. Lease commitments include amounts for leased computer hardware. Computer hardware commitments terminated in 2013. The minimum annual payments remaining under the operating lease are approximated as follows:

Lease Commitments	
2014	\$1,650
2015	1,294
	<u>\$2,944</u>

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

8) OTHER FINANCIAL LIABILITIES:

Other financial liabilities and deferrals arise as a result of the *Electricity Act, 1998* and the regulations under the act and are reflected by the balances in the Regulated Price Plan (RPP), retailer contract settlement deferral accounts, government procurement deferral account and the global adjustment account. In the absence of rate-regulated accounting, these amounts would have flowed through the statement of operations when incurred.

	2013	2012
Other financial liabilities	\$(99,237)	\$(289,918)

RPP variance accounts:

While prices for RPP consumers are set every six months by the OEB based on a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecasted cost of supplying electricity to all RPP consumers. When HOEP is greater than the RPP, the OPA pays the excess amount and records a financial asset as the electricity market funds paid are receivable from the market. When the HOEP is less than the RPP, the OPA receives the difference and records a financial liability as the funds received will be returned to the market. The OPA tracks this variance in the RPP variance account. The Ontario Power Generation (OPG) rebate is equivalent to the difference between the revenue limit for specific OPG generating facilities and the revenue OPG actually received in the IESO wholesale spot market for that generation.

	2013	2012
OPG rebate contribution	\$(603,351)	\$(602,736)
Total RPP variance before interest	493,581	299,896
Interest earned	10,533	12,922
	\$(99,237)	\$(289,918)

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

8) OTHER FINANCIAL LIABILITIES (CONTINUED):

Global adjustment account:

The OPA has a legislated responsibility to record the transactions flowing through the global adjustment mechanism. The global adjustment and settlement accounts have been created for this purpose. The nature of the global adjustment transactions results in a zero balance in the account on a monthly basis. The information and explanation below provide transparency for the transactions flowing through the global adjustment mechanism.

The global adjustment and settlement accounts record charges that flow between the OPA and the IESO. The account flows include the amounts paid and received for: the Demand Response 2 and Demand Response 3 programs, non-utility generation, the regulated nuclear generation balancing amount and the regulated hydroelectric generation balancing amount. These accounts are settled simultaneously by the IESO. The account also records the amounts paid and received for OPA contracts (standard offer, generation and conservation/demand management, FIT Program and hydroelectric contract initiatives) that the OPA settles on a monthly basis with the IESO.

This account also includes charges related to OEB-approved non-OPA conservation programs. These programs are administered by local electricity distribution companies and charges related to them flow directly between the IESO and these companies.

The net impact of global adjustment transactions creates a zero balance in the account at every month end.

	2013	2012
Demand Response 2	\$14,928	\$17,782
Demand Response 3	42,806	35,337
Non-utility generation	1,132,615	1,090,982
Nuclear	1,492,901	1,636,129
Hydro	260,051	212,236
Renewable generation		
OPA contracts	4,784,048	3,463,341
Global adjustment balancing amount	(7,727,348)	(6,455,807)
	\$ -	\$ -

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

9) INTERNALLY RESTRICTED CONSERVATION FUNDS:

The OPA established the Conservation Fund to support electricity conservation projects. The Technology Development Fund was established to aid the development of new technology to improve electricity supply or conservation. To date, 12 funds have been set up as listed in the table below. These funds were set up before April 2010. After that, in accordance with the April 2010 directive, all expenditures for new conservation and technology projects are recovered through the global adjustment mechanism.

	Restricted Fund	Expensed 2013	Expensed Prior Years	Balance 2013	Balance 2012
2005 - 2008 Conservation Fund	\$8,600	\$ -	\$8,009	\$591	\$591
2009 Conservation Fund	3,000	-	2,546	454	454
2010 Conservation Fund	5,000	10	176	4,814	4,824
2005 - 2008 Technology Development Fund	3,500	-	2,916	584	584
2009 Technology Development Fund	1,500	-	1,415	85	85
2010 Technology Development Fund	4,500	395	1,099	3,006	3,401
	\$26,100	\$405	\$16,161	\$9,534	\$9,939

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

10) GENERAL OPERATING COSTS:

	2013	2012
General program costs	\$4,956	\$3,744
Premises	3,742	3,631
Information technology	1,537	3,253
Office and administration	686	644
Interest expense	22	470
	\$10,943	\$11,742

11) PENSION PLAN:

The OPA makes contributions to the Public Service Pension Plan, a multi-employer plan, on behalf of staff. The plan is a contributory defined pension plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately eight percent of earnings. As at December 31, 2013, the OPA paid or accrued contributions totaling \$2,001 (December 31, 2012 - \$2,096) during the year.

12) CHANGE IN NON-CASH OPERATING ITEMS:

	2013	2012
Decrease/(increase) in accounts receivable	\$108,780	\$(130,861)
Decrease/(increase) in prepaid expenses	205	(264)
Increase/(decrease) in accounts payable and accrued liabilities	(112,808)	152,844
Decrease in contract deposits	(5,757)	(23,132)
	\$(9,580)	\$(1,413)

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

13) RELATED PARTY TRANSACTIONS:

The Province of Ontario is a related party as it is the controlling entity of the OPA. The OEB, Hydro One, the IESO, OPG, the Ontario Financing Authority (OFA) and the Ministry of Energy are related parties of the OPA, through the common control of the Province of Ontario. Transactions between these parties and the OPA were as follows:

Under the *Ontario Energy Board Act, 1998*, the OPA incurs registration and licence fees. Consistent with other registrants, in 2013 the OPA was allocated a portion of the operating costs of the OEB. The total of the OPA's transactions with the OEB were \$1,025 in 2013 (2012 - \$1,041).

The OPA procures conservation and demand management from Hydro One. The procurement costs include payments for electricity conservation, program operating costs and management fees. In 2013, the OPA procured \$30,214 in conservation and demand management (2012 - \$34,653), from Hydro One and its wholly owned subsidiaries. At December 31, 2013, the OPA had a net payable to Hydro One of \$2,198 (December 31, 2012 - \$nil).

The OPA receives its fee revenue from the IESO. The fee revenue is approved by the OEB and collected each month by the IESO from ratepayers through a usage rate applied to Ontario domestic electricity consumption. Fee revenue for 2013 was \$75,934 (2012 - \$76,298). In addition, the OPA and the IESO have agreements set up for the settlement of amounts paid and received for the global adjustment account, RPP on behalf of various market participants (see note 8). At December 31, 2013, the OPA had a net receivable of \$393,795 (December 31, 2012 - \$264,304). The OPA also incurred \$123 in 2013 (2012 - \$388) for professional services.

The OPA has available a revolving operating facility in the amount of \$975,000, provided by the OFA to fund its general operating expenses and to support the RPP variance account. The line of credit was renewed in 2013 for a three-year term from January 1, 2014 to December 31, 2016 with an interest rate of 1.17 percent. On December 31, 2013, the OPA had a nil (December 31, 2012 - \$60,000) outstanding balance to the OFA. In 2013, the OPA incurred nil (2012 - \$470) in interest expenses for the loan. This is net of interest expense that was allocated to the market.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

14) CONTINGENCIES AND GUARANTEES:

Contingencies:

In the normal course of its operations, the OPA becomes involved in various legally binding agreements. Some of these agreements contain potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that a future event becomes likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability will be accrued and the expense will be recorded on the OPA's financial statements. As at December 31, 2013, in the opinion of management, no such liabilities existed.

Contract conditions related to the construction of a new clean energy facility stipulate that the OPA is contingently liable to repay upgrade costs, up to a maximum of \$1,000, as incurred by the energy supplier. While none of these costs has been incurred to date, the OPA is liable to cover such costs over a 20-year period ending in 2025. As at December 31, 2013, management was not aware of any information to suggest that these upgrade costs will be incurred by the supplier.

Guarantees:

The OPA enters into contracts with suppliers of electricity as part of its normal business operations. In some cases, these contracts require the OPA to support obligations with these entities. In 2012, the OPA entered into a letter of credit amounting to \$1,349 in support of a contracted obligation. As at December 31, 2013, no amounts had been drawn on the balance.

15) FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

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

The carrying values of the operating loan approximate their fair values, as the terms and conditions for similar types of loan arrangements are comparable to current market conditions for similar items.

The fair values of other financial assets and other financial liabilities are not provided because this would not give additional useful information, as they would be offset and/or would not be practical to determine.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

16) FINANCIAL RISK MANAGEMENT:

The OPA is exposed to financial risks in the normal course of its business operations, including market risks resulting from credit risk, liquidity risk and interest rate risk. The nature of the financial risks and the OPA's strategy for managing these risks has not changed significantly from the prior year.

(a) Credit risk:

Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The OPA is exposed directly to credit risk related to accounts receivable and bank deposits held at the chartered bank. Direct exposure to credit risk is limited to the carrying amount presented for these assets on the statement of financial position. Accounts receivable as of December 31, 2013 included no material items past due.

(b) Liquidity risk:

Liquidity risk refers to the risk that the OPA will encounter financial difficulty in meeting obligations associated with its financial liabilities. The OPA manages liquidity risk by forecasting cash flows to identify financing requirements. Cash flows from operations and maintaining appropriate credit facilities reduce liquidity risk.

(c) Interest rate risk:

The OPA's operating loan has a variable interest rate based on the Province of Ontario's cost of funds for borrowing, with a similar term as determined by the OFA plus a margin. As a result, the OPA is exposed to interest rate risk due to fluctuations in the Province of Ontario's cost of funds for borrowing with a similar term rate.

17) COMPARATIVE FIGURES:

Certain 2012 figures have been reclassified to conform with the financial statement presentation adopted in 2013.

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Ontario Racing Commission

Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Racing Commission have been prepared in accordance with Canadian public sector accounting standards and are the responsibility of management. The preparation of the 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 26, 2014.

Management is responsible for the integrity of the financial statements and maintains a system of internal accounting and administrative control that is designed to provide reasonable assurance the financial information is relevant, reliable and accurate and that the Commission's assets are properly accounted for and adequately safeguarded.

The appointed Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

The Commission meets periodically with management and the Office of the Auditor General of Ontario to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and to satisfy itself that each party is properly discharging its responsibilities.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Independent Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:

A stylized, handwritten signature in black ink.

Steve Lehman
Executive Director and CEO

A handwritten signature in black ink, appearing to read "Leslie Campbell".

Leslie Campbell
Manager, Finance and Administration



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Racing Commission
and to the Minister of Agriculture, Food and Rural Affairs

I have audited the accompanying financial statements of the Ontario Racing Commission, which comprise the statement of financial position as at March 31, 2014, and the statements of operations, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Racing Commission as at March 31, 2014 and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Gary Peall, CPA, CA, LPA
Deputy Auditor General

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Toronto, Ontario
June 26, 2014

Ontario Racing Commission

Statement of Financial Position

As at March 31, 2014

	March 31, 2014 (\$ 000)	March 31, 2013 (\$ 000)
Financial Assets		
Cash (Note 4(A))	2,439	2,425
Accounts receivable (Note 6)	1,417	1,436
Due from the Province (Note 3)	284	-
	<u>4,140</u>	<u>3,861</u>
Liabilities		
Accounts payable and accrued liabilities (Note 7)	1,441	1,164
Accrued benefit obligation (Note 8(B))	742	1,014
Deferred lease inducement (Note 17)	195	276
	<u>2,378</u>	<u>2,454</u>
Net Financial Assets	<u>1,762</u>	<u>1,407</u>
Non-Financial Assets		
Tangible capital assets (Note 9)	156	164
Prepaid expenses	33	9
	<u>189</u>	<u>173</u>
Accumulated Surplus (Note 4(B))	<u>1,951</u>	<u>1,580</u>

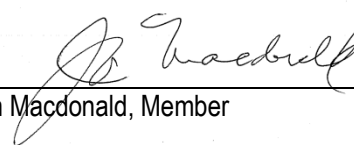
Commitments and contingencies (Note 14)

See accompanying notes to financial statements.

Approved on behalf of the Commission:



Elmer Buchanan, Chair



John Macdonald, Member

Ontario Racing Commission

Statement of Operations

For the year ended March 31, 2014

	Budget 2014 (\$ 000) (Note 17)	2014 (\$ 000)	2013 (\$ 000)
Revenue			
Wagering levy (Note 10)	4,100	4,605	4,973
Licence and registration fees	2,417	3,113	3,357
Cost recovery (Note 11)	1,931	2,318	2,507
Fines and penalties	250	223	326
Interest income	14	25	29
Miscellaneous	—	3	7
Total revenue	8,712	10,287	11,199
Expenses (Note 15)			
Race Officiating	2,376	2,829	3,072
Compliance Investigation	1,562	1,492	1,488
Medication Control	1,303	1,216	1,860
Administration	854	1,028	978
Hearings & Adjudication	508	692	430
Governance	546	622	656
Licensing & Due Diligence	433	575	600
Ontario Horse Racing (Note 3)	—	563	—
Program Administration	559	482	680
Veterinary Services	232	262	245
Government Services	202	111	217
Industry Support	74	44	72
Total expenses	8,649	9,916	10,298
Annual Surplus	63	371	901
Accumulated Surplus, beginning of year	1,580	1,580	679
Accumulated Surplus, end of year	1,643	1,951	1,580

See accompanying notes to financial statements.

Ontario Racing Commission

Statement of Changes in Net Financial Assets

For the Year Ended March 31, 2014

	2014 (\$ 000)	2013 (\$ 000)
Annual Surplus	371	901
(Acquisition) of tangible capital assets	(56)	(4)
Amortization of tangible capital assets	64	76
(Acquisition) of prepaid expense	(85)	(59)
Use of prepaid expense	61	58
	(16)	71
Increase in net financial assets	355	972
Net financial assets, beginning of year	1,407	435
Net financial assets, end of year	1,762	1,407

See accompanying notes to financial statements.

Ontario Racing Commission

Statement of Cash Flows

For the Year Ended March 31, 2014

	2014 (\$ 000)	2013 (\$ 000)
Operating transactions		
Annual Surplus	371	901
Amortization of tangible capital assets	64	76
	<u>435</u>	<u>977</u>
Changes in non-cash operating balances		
Non-cash operating working capital	(12)	(511)
Accrued benefit obligation	(272)	(293)
Deferred lease inducement	(81)	(82)
	<u>(365)</u>	<u>(886)</u>
Capital transactions		
Purchase of tangible capital assets	(56)	(4)
	<u>14</u>	<u>87</u>
Net change in cash	14	87
Cash, beginning of year	<u>2,425</u>	<u>2,338</u>
Cash, end of year	<u>2,439</u>	<u>2,425</u>

See accompanying notes to financial statements.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2014

1. Objective of the Commission

Effective December 15, 2000, the *Racing Commission Act, 2000* continued the Ontario Racing Commission (the "Commission") as an independent self-financing regulatory agency of the Crown. The Commission is responsible to govern, direct, control and regulate horse racing in the Province.

As an Ontario Crown agency, the Commission is exempted from federal and provincial income taxes under the *Income Tax Act* (Canada).

2. Significant Accounting Policies

(A) BASIS OF ACCOUNTING

These financial statements have been prepared by management in accordance with public sector accounting standards established by the Canadian Public Sector Accounting Board.

(B) TANGIBLE CAPITAL ASSETS

Tangible capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of the asset, beginning in the year following acquisition, as follows:

Office furniture and equipment	5 years
Computer equipment and software	3 years
Leasehold improvements	remaining term of lease

(C) REVENUE RECOGNITION

The wagering levy is recognized as income in the year it is due.

Licence and registration fees are recognized as income when issued.

Revenue from fines and penalties, less a provision for uncollectible amounts, is recorded when such fines and penalties are imposed.

(D) EXPENSE RECOGNITION

Expenses are recognized on an accrual basis as incurred, in the year to which they relate.

(E) EMPLOYEE BENEFITS

(I) PENSION BENEFITS

The Commission's employees participate in the Public Service Pension Fund (PSPF), which is a defined benefit pension plan for employees of the Province and many provincial agencies. While participation in the fund is mandatory for full-time employees, part-time employees have the ability to opt out of the Fund. The Province of Ontario, which is the sole sponsor of the PSPF, determines the Commission's annual payments to the fund. As the sponsors are responsible for ensuring that the pension fund is financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the Commission.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2014

2. Significant Accounting Policies (Continued)

(II) NON-PENSION BENEFITS

The cost of post-retirement non-pension employee benefits is paid by the Province and is not included in the Statement of Operations.

(III) ACCRUED BENEFIT OBLIGATION

The accrued benefit obligation records earned employee severance payments due upon termination or retirement.

(F) FINANCIAL INSTRUMENTS

The Commission's financial assets and financial liabilities are accounted for as follows:

- Cash is subject to an insignificant risk of change in value so carrying value approximates fair value.
- Accounts receivable are recorded at amortized cost less any amount for valuation allowance. Valuation allowances are made to reflect accounts receivable at the lower of amortized cost and the net recoverable value, when collectability and risk of loss exists. Changes in valuation allowances are recognized in the Statement of operations.
- Accounts payable and accrued liabilities are recorded at cost.

The Commission does not use derivative financial instruments.

(G) MEASUREMENT UNCERTAINTY

The preparation of financial statements in accordance with Canadian public sector accounting standards requires that management make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses for the period. Items requiring the use of significant estimates include: useful life of capital assets, accrued benefit obligations, and valuation allowances.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

(H) TRUSTS UNDER ADMINISTRATION

Trusts administered by the Commission are not included in the financial statements as the assets are not held for the benefit of the Commission. Details of amounts held in trust are disclosed in Note 5.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2014

3. Ontario Horse Racing

On March 12, 2012 the Ontario Lottery and Gaming Corporation ("OLG") and the Ministry of Finance made an announcement that the Slots-At-Racetrack Program in Ontario would end on March 31, 2013. In response to the cancellation of the slots program, in October 2013 the then Ontario Ministry of Agriculture and Food ("OMAF") announced a five year Horse Racing Partnership Plan ("Plan") to take effect April 1, 2014.

One of the components of the Plan is the establishment of a new Division at the Commission, Ontario Horse Racing (OHR). This new division is the industry development arm of the Commission, and is responsible for ensuring the effective implementation of the Plan and the distribution of the Plan funding. The province's five-year Plan will provide up to \$500 million (at \$100 million per year) to support the horse racing industry. The Plan includes enhancing support for purses, race dates, and the racehorse breeders, integrating horse racing into the province's gaming strategy and encouraging a new model of governance for the industry.

To aid the Commission in its preparation for the launch of the Plan, in February, 2014 OMAF agreed to provide transitional funding to the Commission under the Horse Racing Industry Transition Assistance Program. Transitional funding of \$484,000 is included in Cost recovery (Note 11) in the Statement of Operations of which \$284,000 is included in Due from the Province in the Statement of Financial Position.

4. Cash and Cash Reserve

(A) CASH

The cash balance on the Statement of financial position is made up of the following:

	March 31, 2014 (\$ 000)	March 31, 2013 (\$ 000)
General	1,439	1,425
Reserve	1,000	1,000
	<u>2,439</u>	<u>2,425</u>

(B) RESERVE

Subsection 13(l) of the *Racing Commission Act, 2000* allows the Commission to retain its surplus funds unless, under subsection 13(2), it is ordered by the Minister responsible for the Commission to pay into the Consolidated Revenue Fund of the Province of Ontario the portion of its surplus funds as determined by the Minister. In fiscal 2002, the Commission obtained approval from the then Ministry of Government and Consumer Services to establish a Reserve account not to exceed 25% of the Commission's annual operating budget. These funds will be used as an operating contingency against unanticipated revenue shortfalls.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2014

5. Amounts Held in Trust

As at March 31, 2014, the Commission held funds in trust in interest-bearing bank accounts for others in the horse racing industry, as follows:

	2014 (\$ 000)	2013 (\$ 000)
Amounts held in trust:		
Standardbred horsepeople purse account funds	851	630
Total Carbon Dioxide Program	152	20
Quinte racetrack horsepeople purse account funds	12	12
Fort Erie racetrack horsepeople purse account funds	-	1,098
Fort Erie Live Racing Consortium	-	492
	1,015	2,252

(A) STANDARDTBRED HORSEPEOPLE PURSE ACCOUNT FUNDS

The Commission is holding purse funds from vacated markets and non-licensed tracks for re-distribution for purses at other racetracks.

(B) TOTAL CARBON DIOXIDE (TCO2) PROGRAM

Beginning in September 2008, an annual agreement is signed between the Commission and the Canadian Pari-Mutuel Agency ("CPMA") that CPMA will provide funding to the Commission to subsidize the cost of tests to detect the presence of alkalinizing agents in horses at racetracks that provide pari-mutuel betting. In October 2010, the Commission assumed direct responsibility for the contract for TCO2 sample collection and laboratory testing services. As a result, the cost and funding of this program is reflected within Medication Control expense and Cost recovery revenue, respectively in the Statement of Operations.

(C) QUINTE RACETRACK HORSEPEOPLE PURSE ACCOUNT FUNDS

Due to the lack of a licensed operator at the Quinte racetrack, commencing December 2008 the Commission has held the horsepeople purse account in trust.

(D) FORT ERIE RACETRACK HORSEPEOPLE PURSE ACCOUNT FUNDS

Commencing in December 2008 the Commission ordered that purse funds received under the Slots-At-Racetrack Program be held in trust by the Commission and dispersed as needed for racing at Fort Erie. With the cancellation of the Slots-At-Racetracks Program, the remaining funds being held were paid out for purses related to races conducted at Fort Erie in 2014.

(E) FORT ERIE LIVE RACING CONSORTIUM

On December 31, 2009, the Fort Erie Live Racing Consortium assumed operations of the Fort Erie Racetrack. By mutual agreement between the Consortium, the Ontario Lottery and Gaming Corporation and the Commission, as of January 2010, the Commission received and held in trust amounts generated through the Slots-At-Racetracks Program. With the cancellation of this Program, the remaining funds were paid to the Consortium for use in covering operating costs in 2014.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2014

6. Accounts Receivable

	March 31, 2014 (\$ 000)	March 31, 2013 (\$ 000)
Revenue and other receivables	497	759
HST Receivable	1,057	794
	1,554	1,553
Less: Allowance for Doubtful Accounts	(137)	(117)
	1,417	1,436

Accounts receivables is comprised of HST receivable and amounts due from industry licensees, which are due upon receipt of invoice. Provisions for doubtful accounts are not necessary on most revenue-related receivables due to the licensing relationship that the Commission has with these parties. The allowance for doubtful accounts represents the corresponding provision for a portion of fines receivable.

7. Accounts Payable and Accrued Liabilities

	March 31, 2014 (\$ 000)	March 31, 2013 (\$ 000)
Accounts payable	642	559
Accrued vacation, salaries and benefits	799	605
	1,441	1,164

Accounts Payable relates largely to normal business transactions with third-party vendors and is subject to standard commercial terms. Accrued vacation, salaries and benefits are recorded based on employment arrangements and employment practices under the related legislation. Compensation payables are paid out as required under these contractual or statutory obligations.

8. Employee Benefits

(A) PENSION BENEFITS

The Commission's annual payments of \$294,000 (2013-\$315,000), are included in employee benefits expense in Note 15.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2014

8. Employee Benefits (Continued)

(B) ACCRUED BENEFIT OBLIGATION

The accrued benefit obligation records earned employee severance payments due upon termination or retirement. The decrease in the obligation is due to the Commission's restructuring.

9. Tangible Capital Assets

	(\$ 000)			(\$ 000)
	Computer equipment and software	Office furniture and equipment	Leasehold improvements	Net Book Value
Cost				
Opening balance, April 1, 2013	416	284	450	1,150
Additions	49	7	—	56
Closing Balance, March 31, 2014	465	291	450	1,206
Accumulated Amortization				
Opening Balance, April 1, 2013	(399)	(272)	(315)	(986)
Amortization	(13)	(6)	(45)	(64)
Closing Balance, March 31, 2014	(412)	(278)	(360)	(1,050)
Net Book Value, March 31, 2014	53	13	90	156

	(\$ 000)			(\$ 000)
	Computer equipment and software	Office furniture and equipment	Leasehold improvements	Net Book Value
Cost				
Opening balance, April 1, 2012	414	282	450	1,146
Additions	2	2	—	4
Closing Balance, March 31, 2013	416	284	450	1,150
Accumulated Amortization				
Opening Balance, April 1, 2012	(377)	(263)	(270)	(910)
Amortization	(22)	(9)	(45)	(76)
Closing Balance, March 31, 2013	(399)	(272)	(315)	(986)
Net Book Value, March 31, 2013	17	12	135	164

10. Wagering Levy

The levy was established such that the total sum of the levy and other revenues received by the Commission would be sufficient to cover all costs associated with the operation of the Commission. The levy is calculated as a percentage of total wagering made at each racing association during the 2012 calendar year.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2014

11. Cost Recovery

The Commission recovers certain costs from the industry and OMAF for its activities as follows:

	2014 (\$ 000)	2013 (\$ 000)
Cost recovery from:		
Equine Medication and Drug Control	819	1,060
OMAF – Transition Funding (Note 3)	484	-
TCO2 Program	454	668
Horse Improvement Program	285	358
Quarter Horse Racing Industry Development Program	131	178
Miscellaneous	125	28
Purse Examinations	20	8
Ontario Racing Program	-	207
	2,318	2,507

(A) EQUINE MEDICATION AND DRUG CONTROL

A letter of intent dated December 20, 2006, between an Ontario horse racing industry advisory group and the Commission established the Equine Medication Control and Drug Task Force. The mandate of the Task Force, which is administered by the Commission and partially funded by the racetracks and the horsepeople purse accounts, is to combat the supply and use of illegal equine medications and drugs in the Ontario horse racing industry. The agreement, which covered the two year period from January 1, 2007 through December 31, 2008, required the industry to provide regular payments to fund the Task Force and the Commission records these payments as a deferred cost recovery from industry until the related costs are incurred. Since the expiration of that initial two year agreement, the Commission has arranged to continue administering the Task Force under the same terms and financial arrangements. As of March 31, 2014 all Task Force funding from the industry had been spent.

(B) TCO2 PROGRAM

As of October 1, 2010, the Commission assumed responsibility for the sample collection and laboratory testing services of the TCO2 Program. The costs of tests to detect the presence of alkalizing agents in horses at racetracks that provide pari-mutuel betting are included as Medication Control. These test costs are fully recovered and included as Cost Recovery through charges to the racetrack operators, net of CPMA funding subsidies.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2014

11. Cost Recovery (continued)

(C) HORSE IMPROVEMENT PROGRAM

As of May 1, 2005, the Commission assumed responsibility for the administration of the Horse Improvement Program (HIP). The HIP is a racing and breeding incentive program that was established in 1974. The objectives of the program are: to supplement purses paid; to improve the quality and quantity of racing stock in Ontario; to fund equine research; to promote the Ontario-bred horse; and to promote horse breeding and ownership in the province. A Memorandum of Understanding (MOU) effective September 30, 1996 between the then Ministry of Consumer and Commercial Relations, the Ontario Horse Racing Industry Association and the Commission provided for a reduction of pari-mutuel taxes, with these forgone revenues being allocated to various industry participants. The MOU had been supplemented by subsequent agreements to include an allocated portion of revenues from slot machines at racetracks. This portion of the HIP funding ended March 31, 2013. (Note 3). Separate financial statements have been prepared for the HIP, which were audited by an independent public accounting firm.

(D) QUARTER HORSE RACING INDUSTRY DEVELOPMENT PROGRAM

As a result of an agreement between the Ontario Lottery and Gaming Corporation and owners of the Ajax Downs racetrack, the Commission assumed responsibility to administer the Quarter Horse Racing Industry Development Program (QHRIDP) with an objective to establish a program for the betterment of the Ontario quarter horse racing industry and horse racing in general. Since March 2006, the program had been funded by an allocated portion of revenues from slot machines at the racetrack. Effective April 1, 2014 the quarter horse industry in Ontario will be funded through the Horse Racing Partnership Plan (Note 3). Separate financial statements have been prepared for the QHRIDP, which were audited by an independent public accounting firm.

(E) PURSE EXAMINATIONS

Pursuant to changes to the Rules of Racing that were approved in fiscal 2008, the Commission recovered its costs for conducting examinations on the financial statements of the purse accounts that the racetrack operators hold in trust for the horsepeople.

(F) ONTARIO RACING PROGRAM

The Ontario Racing Program (ORP) is a province-wide approach to the conduct of horse racing. The ORP was developed in 2010 in consultation with industry stakeholders to coordinate and provide structure in addressing local, regional and provincial issues. The Program is built upon a Framework approved by the Board of the Commission. An Implementation and Monitoring Group was established to provide on-going oversight, respond to requests to deviate from the Program, monitor results, ensure compliance and continue to refine and develop the ORP.

The ORP has focused on critical Standardbred racing issues, although the principles of the program apply equally to all breeds. In fiscal year 2014 the Commission made the decision to absorb these costs. Beginning in 2015, the principles and functions of the ORP will be implemented through the ORC's new industry development arm, OHR (Note 3).

Ontario Racing Commission

Notes to Financial Statements

March 31, 2014

12. Members' Remuneration

Total remuneration of the Chair and members of the Commission for the year was \$192,000 (2013 – \$183,000). Members' remuneration is charged to Governance expense in the Statement of Operations and in Services in Note 15.

13. Financial Instruments

(A) LIQUIDITY RISK:

Liquidity risk is the risk that the Commission will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Commission manages its liquidity risk by monitoring its operating requirements. The Commission prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

(B) CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Commission is exposed to credit risk arising from its accounts receivable. Due to the nature of these receivables, the Commission recognizes its receivables net of an impairment based on historical trends.

It is management's opinion that the Commission is not exposed to significant interest rate, currency, liquidity or credit risk arising from its financial instruments due to their nature.

14. Commitments and Contingencies

(A) The Commission is committed under operating leases on head office premises and vehicles with future minimum rental payments due for each fiscal year as follows:

	Premises (\$ 000)	Vehicles (\$ 000)	Total (\$ 000)
2015	385	73	458
2016	384	12	396
2017	26	5	31
2018	13	-	13
	808	90	898

(B) The Commission is involved in various legal actions arising out of the ordinary course of business. These matters may give rise to future liabilities. The outcome and ultimate disposition of these actions are not determinable at this time, and accordingly, no provision has been made in these financial statements for any liability that may result. Settlements paid by the Commission, if any, will be accounted for in the period in which the settlement occurs.

Ontario Racing Commission

Notes to Financial Statements

March 31, 2014

15. Expenses by Object

The following is a summary of expenses by object:

	2014 (\$ 000)	2013 (\$ 000)
Salaries and wages	4,604	4,649
Services (Note 16)	3,572	3,856
Employee benefits (Note 8)	834	793
Transportation and communication	725	793
Supplies	117	131
Amortization	64	76
Total expenses	9,916	10,298

Expenses incurred for a specific activity are allocated to that activity based on actual costs. Expenses that have not been identified with a specific activity, such as overhead costs, have been allocated to the lines of business on the Statement of Operations based on estimates of time spent in each activity.

16. Related Party Transactions

The Commission paid the Province of Ontario for: Ontario Provincial Police investigative and related services totalling \$907,000 (2013– \$1,161,000); and for administrative services, information technology services, and use of computer equipment totalling \$191,000 (2013 – \$182,000).

During the year, the Commission received transitional funding from OMAF under the Horse Racing Industry Transition Assistance Program of \$484,000 (Note 3).

The Commission has governance and administrative responsibilities over certain industry-funded programs and recovers its costs as disclosed under Note 11.

17. Deferred Lease Inducement

As part of its lease arrangements for its head office premise, the Commission negotiated a lease inducement of \$820,000. This included the value of rent-free periods and to cover the costs of leasehold improvements. This deferred lease inducement is being amortized as a reduction of rent expense on a straight-line basis over the 10-year lease period that commenced April 1, 2006, being the start date of the lease.

18. Budgeted Figures

Budgeted figures are approved by the Board of the Commission and the then Ministry of Agriculture and Food. Subsequent to the Budget's approval, a number of additional racetracks entered into transfer payment agreements with the government to secure racing in 2014. Consequently the underlying assumptions used to prepare the Budget no longer reflected the magnitude of racing activities. These financial statements present only the original approved Budget.

19. Comparative Figures

Prior year's figures have been reclassified to conform to the current year's presentation.

ONTARIO SECURITIES COMMISSION

Management's Responsibility and Certification

Management is responsible for the integrity, consistency and reliability of the financial statements and other information presented in the annual report. The financial statements have been prepared by Management in accordance with International Financial Reporting Standards.

We certify that we have reviewed the financial statements and other information contained in the annual report, and, based on our knowledge, they do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the statements and the annual report.

Based on our knowledge, the financial statements together with other financial information included in the annual report fairly present in all material respects the financial condition, results of operations and cash flows of the Ontario Securities Commission (the "OSC") as of the dates and for the periods presented. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions, and are believed to be reasonable.

We are responsible for establishing and maintaining internal control over financial reporting for the OSC. We have designed such internal control over financial reporting, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

We evaluated, or caused to be evaluated under our supervision, the effectiveness of the OSC's internal control over financial reporting at the financial year end and the OSC has disclosed in its annual MD&A our conclusion about the effectiveness of internal control over financial reporting at the financial year-end based on that evaluation.

We have also disclosed in the MD&A any change in our internal control over financial reporting that occurred during the year that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Board of Directors ensures that management fulfills its responsibility for financial reporting and internal control. The financial statements have been reviewed by the Audit and Finance Committee and approved by the Board of Directors. The Auditor General's Report, which follows, outlines the scope of the Auditor's examination and opinion on the financial statements.



Howard I. Wetston, Q.C.

Chair and Chief Executive Officer

June 3, 2014



H.R. Goss

Director, Corporate Services



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

To the Ontario Securities Commission

I have audited the accompanying financial statements of the Ontario Securities Commission, which comprise the statement of financial position as at March 31, 2014, and the statement of comprehensive income, statement of changes in surplus and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ontario Securities Commission as at March 31, 2014 and its financial performance, and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

June 3, 2014
Toronto, Ontario

Statement of financial position

In Canadian dollars

	Notes	March 31, 2014	March 31, 2013
Assets			
Current			
Cash		\$9,518,603	\$11,175,984
Trade and other receivables	5	3,503,209	3,566,243
Prepayments		1,292,995	1,129,765
Total current		\$14,314,807	\$15,871,992
Non-current			
Funds held pursuant to designated settlements and orders	6	18,573,291	19,756,165
Net assets held for CSA Systems redevelopment	7, 17	115,685,590	94,810,759
Reserve fund assets	8	20,000,000	20,000,000
Property, plant & equipment	9	13,675,681	9,257,175
Total non-current		\$167,934,562	\$143,824,099
Total assets		\$182,249,369	\$159,696,091
Liabilities			
Current			
Trade and other payables	10	\$18,332,125	\$17,090,122
Total current		\$18,332,125	\$17,090,122
Non-current			
Pension liabilities	12(b)	3,118,630	2,731,527
Funds held pursuant to designated settlements and orders	6	18,573,291	19,756,165
Net assets held for CSA Systems redevelopment	7, 17	115,685,590	94,810,759
Total non-current		\$137,377,511	\$117,298,451
Total liabilities		\$155,709,636	\$134,388,573
Surplus			
Operating			
General		\$6,539,733	\$5,307,518
Reserve	8, 13	20,000,000	20,000,000
		\$26,539,733	\$25,307,518
Total liabilities and surplus		\$182,249,369	\$159,696,091

The related notes are an integral part of these financial statements.

On Behalf of the Board of the Commission



Howard I. Wetston, Q.C.

Chair



Sinan O. Akdeniz

Chair, Audit and Finance Committee

Statement of comprehensive income

In Canadian dollars

	Notes	Year ended March 31, 2014	Year ended March 31, 2013
Revenue			
Fees	14	\$98,441,276	\$86,930,037
Interest income		127,797	236,708
Miscellaneous		108,047	111,136
		\$98,677,120	\$87,277,881
Expenses			
Salaries and benefits	15	\$74,471,187	\$72,222,006
Occupancy		7,996,668	7,434,056
Administrative	16	7,760,794	7,606,472
Professional services		4,446,393	5,767,182
Depreciation	9	2,480,939	2,461,213
Other		506,546	560,669
		\$97,662,527	\$96,051,598
Recoveries of enforcement costs	3(c)	\$(507,879)	\$(1,244,931)
		\$97,154,648	\$94,806,667
Excess/(Deficiency) of revenue over expenses		\$1,522,472	\$(7,528,786)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit pension plans		\$(290,257)	\$(287,066)
Other comprehensive income/(loss)		\$(290,257)	\$(287,066)
Total comprehensive income/(loss)		\$1,232,215	\$(7,815,852)

The related notes are an integral part of these financial statements.

Statement of changes in surplus

In Canadian dollars

	Notes	March 31, 2014	March 31, 2013
Operating surplus, beginning of year		\$25,307,518	\$33,123,370
Total comprehensive income/(loss)		1,232,215	(7,815,852)
Operating surplus, end of year		\$26,539,733	\$25,307,518
Represented by:			
General		\$6,539,733	\$5,307,518
Reserve	8, 13	20,000,000	20,000,000
		\$26,539,733	\$25,307,518

The related notes are an integral part of these financial statements.

Statement of cash flows

In Canadian dollars

	Notes	Year ended March 31, 2014	Year ended March 31, 2013
Cash flows from/(used in) operating activities			
Excess/(Deficiency) of revenue over expenses		\$1,522,472	\$(7,528,786)
Adjusted for:			
Interest received		\$134,799	\$248,495
Interest income		(127,797)	(236,708)
Interest expense on line of credit		130,305	24,012
Pension liabilities		96,846	66,854
Loss on disposal of Property, plant & equipment	9	40,214	931
Depreciation	9	2,480,939	2,461,213
		\$4,277,778	\$(4,963,989)
Changes in non-cash working capital			
Trade and other receivables		\$56,032	\$(878,520)
Prepayments		(163,230)	(103,922)
Trade and other payables		1,242,003	1,861,945
		\$1,134,805	\$879,503
Net cash flows from/(used in) operating activities		\$5,412,583	\$(4,084,486)
Cash flows used in investing activities			
Purchase of Property, plant & equipment	9	\$(6,939,659)	\$(7,775,590)
Net cash flows used in investing activities		\$(6,939,659)	\$(7,775,590)
Cash flows used in financing activities			
Repayment of obligation under finance leases		—	\$(1,631)
Interest paid on line of credit		\$(130,305)	(24,012)
Net cash flows used in financing activities		\$(130,305)	\$(25,643)
Net decrease in cash		\$(1,657,381)	\$(11,885,719)
Cash position, beginning of year		11,175,984	23,061,703
Cash position, end of year		\$9,518,603	\$11,175,984

The related notes are an integral part of these financial statements.

Notes to the financial statements

1 Reporting entity

The Ontario Securities Commission (OSC) is a corporation domiciled in Canada. The address of the OSC's registered office is 20 Queen Street West, Toronto, Ontario, M5H 3S8. The OSC is a corporation without share capital and is the regulatory body responsible for regulating the province's capital markets. As a Crown corporation, the OSC is exempt from income taxes.

2 Basis of presentation

(a) Statement of compliance

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements for the year ended March 31, 2014 (including comparatives) were authorized for issue by the Board of Directors on June 3, 2014.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value and pension liabilities that are measured net of actuarial gains and losses, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the OSC's functional currency, which have been rounded to the nearest dollar.

(d) Use of judgments and sources of estimation uncertainty

(i) Judgments

The preparation of financial statements in accordance with IFRS requires that management make judgments in applying accounting policies that can affect the reported amounts of assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenue and expenditures for the period.

The following are the judgments in applying accounting policies apart from those involving estimates that have the most significant effect on the amounts recognized in the financial statements.

Investor Education Fund (IEF or the Fund)

The IEF is a non-profit organization funded by settlements and fines from enforcement proceedings of the OSC. There are a number of areas where judgment is exercised to establish whether the Fund needs to be consolidated with the OSC. Key areas of judgment include control, legal relationship, contractual terms, board and management representation, power to govern, benefits and materiality. OSC management has exercised judgment in these areas to determine that consolidation of the Fund with the OSC results would not be appropriate because investors in the capital market, rather than the OSC, obtain the benefit or variable returns from the activities of the IEF. Further details related to the IEF are set out in **Note 19**.

Net assets held for Canadian Securities Administrators (CSA) Systems redevelopment (CSA net assets or surplus funds)

There are a number of areas where judgment is exercised to establish whether this arrangement and related net asset amounts are presented as a financial asset, an equity accounted investment, joint arrangement or consolidated with OSC operations. In making this determination, OSC management considered the requirements of recently effective IFRS pronouncements that could apply to this arrangement, in particular, IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, and IFRS 12, *Disclosure of Interests in Other Entities*, as well as IAS 28, *Investments in Associates and Joint Ventures*.

The OSC has been appointed to administer the financial management processes of the surplus funds and their use, and to receive, hold and manage any surplus funds. Despite the OSC acting as custodian of these surplus funds, based on an evaluation of the contractual terms and conditions related to the arrangement, OSC management has determined that participants in the capital market, rather than the OSC (or other CSA members, including the Investment Industry Regulatory Organization of Canada (IIROC) in the case of NRD until October 13, 2013) obtain the benefit or rewards from holding the surplus funds, or any future development of the CSA Systems. OSC management has determined that the OSC does not have control over the surplus funds, as the OSC is not exposed to and does not have rights to variable returns from the surplus funds. The surplus funds are therefore not consolidated with the OSC's results.

In addition, OSC management exercised judgment to determine that the OSC does not have joint control of the surplus funds because the significant relevant activities relating to the surplus funds do not require unanimous consent of all parties that control the arrangement collectively.

OSC management exercised judgment to determine that the surplus funds represent a financial asset and a corresponding liability rather than an equity accounted investment. In making this determination, OSC management considered the surplus funds' restricted future use, and that the surplus funds will provide future benefits to market participants. There has been no substantive change in the arrangement and continuity of the previous presentation of the funds held for CSA Systems redevelopment, with related note disclosure, is appropriate. A change in presentation of the surplus funds in the OSC financial statements could impair the comparability of the financial statements without providing information that is more relevant to the users of the financial statements.

Further details, including summary financial information related to the Net assets held for CSA Systems redevelopment, are set out in **Note 7**.

(ii) Sources of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires that management make assumptions about the future and other sources of estimation uncertainty that have a significant risk of affecting the carrying amounts of assets and liabilities within the next financial year. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. Actual amounts can differ from these estimates to the extent future outcomes differ significantly from management's estimations. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following are the key assumptions and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year.

Supplemental pension plan

Supplemental Pension Plan liabilities represent the estimated present value of the OSC's obligation for future payments on March 31, 2014. The OSC relies on an independent actuarial expert to determine the present value of the defined benefit obligation of the supplemental pension plan and related impact to the Statement of comprehensive income, and Other comprehensive income (OCI). In some cases, this determination will involve management's best estimates and other information from other accredited sources. A change in one or more of these assumptions can possibly have a material impact on the OSC's financial statements. The significant actuarial assumptions used in determination of the present values of the defined benefit obligations and sensitivity analysis of changes in the actuarial assumptions used is outlined in **Note 12(b)**.

Designated settlements and orders and Recoveries of enforcement costs

Designated settlements and orders and Recoveries of enforcement costs are recognized net of amounts deemed uncollectible when it is expected that the amount related to the sanction imposed on respondents is collectible. Estimation is required to determine the amount of designated settlements to recognize and orders that will be collected and the estimated Recoveries of enforcement costs. Key areas considered include the ability of the respondent to pay the sanction amount, the ability to locate the respondent and whether the respondent owns any assets. A change in any of the above areas can have a material impact on the OSC's financial statements. Assets and liabilities will change related to estimated designated settlements and order amounts deemed to be collectible. Expenses may change related to the Recoveries of enforcement costs. Further details of designated settlements and orders are set out in **Note 6**.

(e) Comparative figures

Certain comparative figures have been adjusted to conform to current IFRS presentation and disclosure requirements. These adjustments are not material to the Statement of financial position or Statement of comprehensive income and are primarily the result of retrospective application of IAS 19 (refer to **Notes 12** and **20** for further details).

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Refer to **Note 20** for discussion related to accounting standards, interpretations and amendments that became effective in the year.

(a) Financial instruments

Financial assets and financial liabilities are recognized when the OSC becomes a party to the contractual provisions of the instrument.

Financial instruments are classified into one of the following categories: financial assets at fair value through profit or loss, loans and receivables, and other liabilities.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

The OSC has adopted the following classifications for financial assets and financial liabilities.

Loans and receivables

Trade and other receivables and receivables from designated settlements and orders are classified as loans and receivables and are measured at amortized cost, less any impairment loss. Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of a market participant, or default or significant delay in payment) that the OSC will be unable to collect all of the amounts due under the terms of the amount receivable.

Financial assets at fair value through profit or loss

Cash, Funds held pursuant to designated settlements and orders, funds included in the Net assets held for the CSA Systems redevelopment and Reserve fund assets are classified as held-for-trading and recorded balances approximate their fair value.

Other liabilities

Trade and other payables are classified as other liabilities and measured at amortized cost. The recorded balances approximate their fair value.

(b) Property, plant & equipment

Items of Property, plant & equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is recognized in profit and loss and calculated on a straight-line basis over the estimated useful life of the asset less its residual value, as follows:

Computer hardware and related applications



3 years

Network servers and cabling*



5 years

Office furniture and equipment



5 to 10 years

Leasehold improvements



Over remaining term of the lease plus one option period

* This change in accounting estimate for the expected useful lives of network servers and cabling (which was included with Computer hardware and related applications, with an estimated useful life of 3 years) is the result of new information in the 2014 financial year. No depreciation for the year was recorded for Network servers and cabling as their acquisition took place at year end.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each year, with the effect of any changes in estimates accounted for on a prospective basis.

Computer hardware and related applications held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, when shorter, the term of the relevant lease.

An item of Property, plant & equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of Property, plant & equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in profit or loss.

Items of Property, plant & equipment are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. If such indication exists, then the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

(c) Revenue recognition

Fees are recognized when services are rendered, which is normally upon receipt.

Participation fees

Participation fees are recognized when received. Prior to receipt of the fee, the probability that the economic benefits associated with the transaction will flow to the OSC is unknown. Additionally, reliable measurement of participation fees for new market participants is not possible because the market capitalization of issuers or the specified Ontario revenue of registrants, on which their participation fees are based, is undeterminable prior to receipt. These fees represent the payment for the right to participate in the Ontario capital markets, and the OSC has no specific obligations throughout the year to any individual market participant. As such, the OSC's performance consists of a single act, which is the payment of the fee. Once the fee is paid, there is no obligation to refund the fees and there are no other unfulfilled conditions on behalf of the OSC. Therefore, participation fees are deemed to be earned upon receipt.

Activity fees

Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Because the activities undertaken are normally completed in a relatively short period of time, activity fees are recognized when received.

Late filing fees

Late filing fees in respect of insider trading reports are recognized weekly and include fees related to all insider trading reports filed late in the preceding seven-day period.

Recoveries of enforcement costs

Recoveries of enforcement costs are recorded as offsets to total expenses on the date a settlement is approved or an order is issued by the OSC, unless management determines there is significant doubt as to ultimate collection, in which case, recovery is recognized when cash is received.

(d) Funds held pursuant to designated settlements and orders

Funds held pursuant to designated settlements and orders are recorded when settlements are approved or orders are made by the Commission, unless management determines there is significant doubt as to ultimate collection, in which case, they are recognized when cash is received.

(e) Employee benefits

Ontario's Public Service Pension Plan

The OSC provides pension benefits to its full-time employees through participation in Ontario's Public Service Pension Plan (OPSP), which is a multi-employer defined benefit pension plan. The Province of Ontario is the sole sponsor of the OPSP. This plan is accounted for as a defined contribution plan, as sufficient information is not provided to the OSC, or otherwise available for the OSC to apply defined benefit plan accounting to this pension plan. As the sponsor is responsible for ensuring that

the pension funds are financially viable, any surpluses or unfunded liabilities arising from statutory actuarial funding valuations are not assets or obligations of the OSC. The OSC is not exposed to any liability to the plan for other entities' obligations under the terms and conditions of the multi-employer plan. There is no deficit or surplus in the plan that could affect the amount of future contributions for the OSC. Furthermore, there is no agreed allocation of a deficit or surplus on wind-up or withdrawal by the OSC from the plan. Payments made to the plan are recognized as an expense when employees have rendered service entitling them to the contributions. Refer to **Note 12(a)** for further details on the OPSPP.

Supplemental pension plan

The OSC also maintains unfunded supplemental pension plans for certain full-time Commission members as described in **Note 12(b)**. The plans are final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of the target benefits provided depends on members' length of service and their salary in the final years leading up to retirement. In some plans, the target benefits are indexed with inflation. The target benefits are then offset by the benefits payable from the OPSPP (registered and supplemental plans), which is linked to inflation.

The defined benefit liability recognized in the Statement of financial position for the supplemental pension plans is the present value of the defined benefit obligation at the reporting date.

Remeasurements of the net defined benefit liability arising from the supplemental pension plans, the actuarial gains and losses are recognized immediately in the Statement of financial position with a corresponding debit or credit through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Other post-employment obligations

The costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of comprehensive income, as described in **Note 18(c)**.

Termination benefits

Termination benefits are generally payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The OSC recognizes a liability and an expense for termination benefits as the earlier of the date the OSC has demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without a realistic possibility of withdrawal, or when it has recognized costs for providing termination benefits as a result of a restructuring involving a fundamental reorganization that has a material effect on the nature and focus of OSC operations.

Short-term benefits

Short-term employee benefits, such as salaries, pension contributions, paid annual leaves and bonuses, are measured on an undiscounted basis and are expensed as the related service is provided to the OSC.

(f) Leases

Leases of Property, plant & equipment are classified as finance leases when the OSC obtains substantially all the risks and rewards of ownership of the underlying assets. At the inception of the lease, the OSC records an asset together with a corresponding long-term liability at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Any initial direct costs are added to the amount recognized as an asset. Thereafter, the asset is amortized over the shorter of its useful life and the lease term. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. Lease payments are expensed on a straight-line basis over the term of the lease.

In the event that lease incentives are received to enter into operating leases, the aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(g) Provisions

A provision is recognized when a present legal or constructive obligation results from past events, it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

4 Financial instruments risks

The OSC is exposed to various risks in relation to financial instruments. The OSC's objective is to maintain minimal risk. The OSC's financial assets and liabilities by category are summarized in **Note 3**. The main types of risks related to the OSC's financial instruments are currency risk, interest rate risk, credit risk and liquidity risk. This note presents information about the OSC's exposure to these risks and the OSC's objectives, policies and processes for measuring and managing these risks.

Currency risk

The OSC's exposure to currency risk is minimal as only a small number of transactions are in currencies other than Canadian dollars.

Interest rate risk

The OSC's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. The OSC's Cash, Funds held pursuant to designated settlements and orders, Net assets held for CSA Systems redevelopment (cash components) and Reserve fund assets are held by Schedule 1 banks. The bank balances earn interest at a rate of 1.85% below the prime rate, and the average rate of interest earned for the year was 1.15% (2013 – 1.22%). The Reserve fund earned interest at an average rate of 1.15% (2013 – 1.23%).

A 25 basis points change in the interest rate would impact the OSC's operating surplus as follows:

Impact on operating surplus		
	25 basis points increase in rates	25 basis points decrease in rates
Reserve fund assets	\$9,474	\$(9,474)
Cash balance	16,115	(16,115)
	\$25,589	\$(25,589)

Credit risk

The OSC is exposed to minimal credit risk related to Cash, Funds held pursuant to designated settlements and orders, cash components of Net assets held for CSA Systems redevelopment, Reserve fund assets, and Trade and other receivables.

Schedule 1 financial institutions hold approximately 94% of the OSC's financial assets. However, given the nature of this counterparty, it is management's opinion that exposure to concentration of credit risk is minimal. Additionally, the investment policy for Cash, Reserve fund assets and for Funds held pursuant to designated settlements and orders limits amounts held on deposit in any one of the Schedule 1 banks to \$30,000,000 for each category.

Trade receivable balances consist of a large number of debtors owing individually immaterial balances.

Other receivables in aggregate are material, with a number of debtors owing individually and in aggregate immaterial amounts, and a small number of debtors owing larger amounts, which are material in aggregate but not individually, and are receivable from:

- Government of Canada for recovering Harmonized Sales Tax (HST) paid during the year,
- Net assets held for CSA Systems redevelopment, which the OSC oversees, to recover staff costs and other charges incurred,
- The IEF for seconded staff and other charges incurred, and
- The Canadian Securities Transition Office (CSTO) for seconded staff.

Therefore, the OSC's exposure to concentration of credit risk is minimal.

The OSC maintains an allowance for doubtful accounts. Therefore, the carrying amount of Trade and other receivables generally represents the maximum credit exposure. Based on historical information about debtors' default rates, management considers the credit quality of trade receivables that are not past due or impaired to be good. Collection efforts continue for Trade and other receivables balances, including those that are captured in the allowance for doubtful accounts.

The aging of Trade and other receivables is as follows:

	March 31, 2014	March 31, 2013
Current	\$2,310,349	\$2,004,358
Past due 31 to 60 days	575,207	970,252
Past due 61 to 90 days	312,354	328,970
Past due greater than 90 days	1,445,598	1,333,007
	\$4,643,508	\$4,636,587

Reconciliation of allowance for doubtful accounts is as follows:

	Notes	March 31, 2014	March 31, 2013
Opening balance		\$1,070,344	\$958,834
Current year provision		164,215	140,540
Written-off during the year		(94,260)	(29,030)
Closing balance	5	\$1,140,299	\$1,070,344

Liquidity risk

The OSC's exposure to liquidity risk is low as the OSC has a sufficient cash balance, reserve fund assets, and access to a credit facility to settle all current liabilities. As at March 31, 2014, the OSC had a cash balance of \$9.5 million and reserve fund assets of \$20 million to settle current liabilities of \$18.3 million.

The OSC has a \$35 million credit facility to address any short-term cash deficiencies. Interest on the credit facility is charged at a rate of 0.5% below the prime rate. During the year, the OSC utilized the credit facility to a maximum of \$24 million. As at March 31, 2014, there is no amount outstanding on the credit facility.

The overall exposure to the above noted risk remains unchanged from 2013.

Supplemental pension plan risks

The OSC's overall exposure to supplemental pension plan risks is low due to the plan being a supplemental plan and the limited number of plan members entitled to plan benefits. Refer to **Note 12(b)** for further details.

5 Trade and other receivables

	Notes	March 31, 2014	March 31, 2013
Trade receivables		\$1,040,114	\$1,202,251
Other receivables		\$1,979,836	\$2,031,326
Allowance for doubtful accounts	4	(1,140,299)	(1,070,344)
		\$1,879,651	\$2,163,233
Interest receivable		24,638	30,936
Due from IEF	19	330,018	502,635
HST recoverable		1,268,902	869,439
		\$3,503,209	\$3,566,243

6 Funds held pursuant to designated settlements and orders

The OSC has a number of settlement agreements and orders arising from enforcement proceedings where monies from these settlements and orders are to be set aside and allocated to such third parties as the OSC may determine. As a result of an amendment to the *Securities Act* (Ontario) effective June 2012, the Commission may also use these funds for the purpose of educating investors, or promoting or otherwise enhancing knowledge and information of persons regarding the operation of the securities and financial markets. The accumulated funds are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.85%. The OSC will allocate these funds as it determines appropriate in its discretion. This will include allocations to harmed investors, where appropriate and where an allocation can be reasonably effected.

As at March 31, 2014, the accumulated balance is determined as follows:

	Notes	March 31, 2014	March 31, 2013
Opening balance		\$19,756,165	\$47,194,738
Assessed during the year		61,675,609	80,174,712
Less:			
Amounts to be paid directly to investors		–	(4,019,124)
Adjustments to present value		(11,909)	(21,051)
Orders deemed uncollectible		(57,911,552)	(71,249,950)
Amount recorded from assessments in year		3,752,148	4,884,587
Amounts collected in advance of an order		100,000	–
Adjustments to amounts assessed in prior years		31,720	195,172
Total settlements and orders recorded		\$3,883,868	\$5,079,759
Add: interest		\$165,271	\$514,283
Less: payments			
IEF	19	(3,295,000)	(3,900,000)
ABCP		–	(28,632,615)
Others		(1,937,013)	(500,000)
Closing balance		\$18,573,291	\$19,756,165
Represented by:			
Cash		\$13,854,489	\$14,607,579
Receivable		4,718,802	5,148,586
		\$18,573,291	\$19,756,165

The \$3,883,868 (2013 – \$5,079,759) identified as total settlements and orders recorded reflects the portion of \$61,675,609 (2013 – \$80,174,712) in settlements and orders that was assessed during the year, for which payment was either received or has been deemed collectible. This total includes \$31,720 (2013 – \$195,172) in adjustments from orders recorded in prior years and \$100,000 (2013 – \$0) collected from a respondent in advance of an order being issued.

The adjustments to amounts assessed in prior years include portions of orders from prior years that are on payment plans that were recorded in fiscal 2014, plus the amount that had been previously deemed uncollectible where payment was received in fiscal 2013, less the amount that is now deemed as uncollectible, or will be distributed directly, but had been deemed as collectible in prior periods. As at March 31, 2014, \$4,718,802 (2013 – \$5,148,586) was considered receivable because these amounts are expected to be collected.

The OSC collected a total of \$1,768,769 (2013 – \$3,218,134) of the designated settlements and orders assessed during the year resulting in an average collection rate of 2.87% (2013 – 4.01%).

As authorized by the Board, the OSC made the following payments from the designated funds: \$3,295,000 to the IEF (2013 – \$3,900,000), \$1,437,013 (2013 – \$28,632,615) to be distributed to the eligible investors in two different enforcement matters and \$500,000 (2013 – \$500,000) to FAIR Canada representing the final payment of a two-year funding commitment.

7 Net assets held for CSA Systems redevelopment (surplus funds)

The core CSA National Systems (CSA Systems) are comprised of the System for Electronic Document Analysis and Retrieval (SEDAR), the National Registration Database (NRD) and the System for Electronic Disclosure by Insiders (SEDI).

The OSC, British Columbia Securities Commission (BCSC), Alberta Securities Commission (ASC) and l'Autorité des marchés financiers (AMF) are principal administrators (PAs) of the CSA Systems.

The OSC has been appointed the Designated Principal Administrator – Operations (DPA). As DPA, the OSC oversees the custody and financial management of the system fees collected relating to the CSA Systems use by market participants. The Net assets held for CSA Systems redevelopment include surplus funds accumulated from CSA Systems operations received, held and managed by the DPA on behalf of the PAs, and IIROC (in the case of NRD system fee surplus funds accumulated to October 13, 2013). The use of these surplus funds is restricted by various agreements between the PAs.

Prior to January 13, 2014 CDS Inc. (CDS) operated the CSA Systems on behalf of the PAs under agreements dated as of August 1, 2004 for SEDAR, October 26, 2001 for SEDI and June 13, 2003 for NRD. CDS forwarded the annual operating surpluses associated with CSA Systems fees collected, net of operating costs, to the OSC as custodian of the surplus funds. Direction to CDS for the CSA Systems operation was provided by representatives from the PAs, through unanimous vote. These surplus funds were held and managed by the OSC as custodian in accordance with agreements among the PAs. The surplus funds are held in segregated bank accounts with a Schedule 1 financial institution and earn interest at the monthly average bank prime rate less 1.85%.

Effective January 13, 2014, CGI Information Systems and Management Consultants Inc. (CGI) became the service provider to host and maintain the CSA Systems, as a result of a competitive request for proposal process. Under the new agreements, CGI will forward the gross system fees collected from users of the CSA Systems to the DPA as they are received and will invoice the DPA for these services. The DPA will administer payments to CGI for services provided, as they become due from the surplus funds. A Governance Committee comprised of members of the four PAs was established through an agreement signed on April 2, 2013, creating a governance framework for management and oversight, including that of CGI. The agreement outlines how user fees will be collected and deployed, and addresses allocation and payment of liabilities that may arise.

As of January 13, 2014, use of the surplus funds within the terms of the various agreements requires the approval of members of the Governance Committee. Majority approval is required for all permissible uses of the surplus funds as outlined within the various agreements, with the exception of: (a) any financial commitments in excess of the lesser of (i) \$5 million and (ii) 15% of the accumulated surplus at such date; (b) significant changes to the design of the systems; and (c) any changes to System Fees, which all require unanimous approval of the PAs. In the case of NRD, IIROC is a party to the applicable agreement, and its approval is required for any use of the surplus funds that deviates from the contractually agreed uses. IIROC approval is not required for NRD funds accumulated after October 13, 2013 for any purpose, nor is it required for use of non-NRD funds accumulated.

The CSA plans to redevelop the CSA Systems in a multi-year phased approach. Funding for this redevelopment program will come from the accumulated surplus funds.

The results of the Net assets held for CSA Systems redevelopment are presented below. Due to the transition of CSA System operations from CDS to CGI in the current year and the introduction of the OSC as DPA, the prior year results relating to the Net assets held for CSA Systems redevelopment are not comparable, and therefore have not been included.

Financial position

	As at March 31, 2014
Assets	
Current	
Cash	\$112,105,853
Trade and other receivables	2,983,766
Prepayments	1,250,268
Total current	\$116,339,887
Intangible asset	708,333
Total assets	\$117,048,220
Liabilities	
Current	
Trade and other payables	\$1,362,630
Total current	\$1,362,630
Total liabilities	\$1,362,630
Surplus	
Opening surplus	\$94,810,759
Excess of revenue over expenses	20,874,831
Closing surplus	\$115,685,590
Total liabilities and surplus	\$117,048,220

Results of operations

	Year ended March 31, 2014
Revenue	
NRD system fees	\$28,510,359
SEDAR system fees	21,515,082
Data distribution services fees	344,805
Interest income	1,130,292
Total revenue	\$51,500,538
Expenses	
Professional services	\$27,962,272
Depreciation	41,667
Other	2,621,768
Total expenses	\$30,625,707
Excess of revenue over expenses	\$20,874,831

Cash flows

	Year ended March 31, 2014
Cash flows from operating activities	
Excess of revenue over expenditures	\$20,874,831
Adjusted for:	
Interest income received	1,111,025
Interest income	(1,130,292)
Depreciation	41,667
	\$20,897,231
Changes in non-cash working capital	
Trade and other receivables	\$(2,765,281)
Prepayments	(1,250,268)
Trade and other payables	1,362,630
	\$(2,652,919)
Net cash flows from operating activities	\$18,244,312
Cash flows used in investing activities	
Purchase of intangible asset	\$(750,000)
Net cash flows used in investing activities	\$(750,000)
Cash flows used in financing activities	
Net cash flows used in financing activities	—
Net increase in cash position	\$17,494,312
Cash position, beginning of period	94,611,541
Cash position, end of period	\$112,105,853

For more information on the Net assets held for CSA Systems redevelopment, see **Note 2(d)** and **Note 17** for further details.

8 Reserve fund assets

As part of the approval of its self-funded status, the OSC was allowed to establish a \$20 million reserve to be used as an operating contingency against revenue shortfalls and unanticipated expenditures, or to cover the discrepancy between timing of revenue and expenses.

The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the OSC. The March 31, 2014 accumulated reserve fund assets are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.85%.

9 Property, plant & equipment

2014	Office furniture	Office equipment	Computer hardware and related applications	Computer hardware and related applications held under finance leases	Networks and servers	Leasehold improvements	Total
Gross carrying amount							
Balance as at April 1, 2013	\$4,531,620	\$581,252	\$18,695,699	\$309,964	—	\$5,594,364	\$29,712,899
Additions	266,263	2,619	402,897	—	\$2,513,937	3,753,943	6,939,659
Disposals	(101,244)	—	(302,995)	—	—	—	(404,239)
Balance at March 31, 2014	\$4,696,639	\$583,871	\$18,795,601	\$309,964	\$2,513,937	\$9,348,307	\$36,248,319
Depreciation							
Balance as at April 1, 2013	\$(3,984,278)	\$(449,591)	\$(15,552,446)	\$(309,964)	—	\$(159,445)	\$(20,455,724)
Depreciation for the year	(239,959)	(14,816)	(1,317,866)	—	—	(908,298)	(2,480,939)
Disposals	88,385	—	275,640	—	—	—	364,025
Balance at March 31, 2014	\$(4,135,852)	\$(464,407)	\$(16,594,672)	\$(309,964)	\$0	\$(1,067,743)	\$(22,572,638)
Carrying amount at March 31, 2014	\$560,787	\$119,464	\$2,200,929	\$0	\$2,513,937	\$8,280,564	\$13,675,681
2013							
Gross carrying amount							
Balance as at April 1, 2012	\$4,163,752	\$581,182	\$16,897,843	\$395,828	—	\$10,028,079	\$32,066,684
Additions	368,883	70	1,812,274	—	—	5,594,363	7,775,590
Disposals	(1,015)	—	(14,417)	(85,864)	—	(10,028,078)	(10,129,374)
Balance at March 31, 2013	\$4,531,620	\$581,252	\$18,695,700	\$309,964	\$0	\$5,594,364	\$29,712,899
Depreciation							
Balance as at April 1, 2012	\$(3,814,510)	\$(430,666)	\$(14,304,544)	\$(224,368)	—	\$(9,348,867)	\$(28,122,955)
Depreciation for the year	(170,783)	(18,925)	(1,261,370)	(171,460)	—	(838,675)	(2,461,213)
Disposals	1,015	—	\$13,468	85,864	—	10,028,097	10,128,444
Balance at March 31, 2013	\$(3,984,278)	\$(449,591)	\$(15,552,446)	\$(309,964)	\$0	\$(159,445)	\$(20,455,724)
Carrying amount at March 31, 2013	\$547,342	\$131,661	\$3,143,254	\$0	\$0	\$5,434,919	\$9,257,175

10 Trade and other payables

	March 31, 2014	March 31, 2013
Trade payables	\$3,699,262	\$1,263,691
Payroll accruals	12,148,952	12,009,019
Other accrued expenses	2,483,911	3,817,412
	\$18,332,125	\$17,090,122

11 Lease commitments

Operating leases

The OSC has entered into operating lease agreements for equipment and office space, and is committed to operating lease payments as follows:

	March 31, 2014	March 31, 2013
Less than one year	\$7,484,445	\$7,859,555
Between one and five years	18,007,672	26,762,021
More than five years	—	—
	\$25,492,117	\$34,621,576

Lease expense recognized during the period was \$7,695,633 (2013 – \$7,198,182). This amount consists of minimum lease payments. A small portion of the OSC's office space is subleased to the IEF and the CSA IT Systems Project Office, which is recorded as Miscellaneous revenue. Sublease payments of \$216,122 are expected to be received during the next year.

The lease on OSC premises began August 30, 2012 for a term of five years, expiring on August 31, 2017. The OSC has two consecutive options to extend the term beyond August 31, 2017, each for a period of five years. The OSC expects to exercise the first option. The OSC's operating lease agreements do not contain any contingent rent clauses.

12 Pension plans

(a) Ontario Public Service Pension Plan

All eligible OSC employees must, and members may, participate in the OPSPP. The OSC's contribution to the OPSPP for the year ended March 31, 2014 was \$4,565,594 (2013 – \$4,384,576), which is included under Salaries and benefits in the Statement of comprehensive income. The expected contributions for the plan for the next fiscal year are \$4,750,000.

Information on the level of participation of the OSC in the multi-employer OPSPP compared with other participating entities is not available.

(b) Supplemental pension plans

The OSC also has unfunded supplemental defined benefit pension plans for the OSC's current and former Chairs and Vice-Chairs. These supplemental pension plans have no plan assets. The actuarial liability and the current service cost are determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions. The supplemental defined benefit pension plans are non-registered plans. The benefit payments are made by the OSC as they become due. Responsibility for governance of the plans lies with the OSC. The OSC has an Audit and Finance Committee, and a Human Resources and Compensation Committee to assist in the management of the plans. The OSC has also appointed experienced, independent professional actuarial experts to provide a valuation of the pension obligation for the supplemental plans in accordance with the standards of practice established by the Canadian Institute of Actuaries.

Under the projected benefit method, the liability is the actuarial present value of benefits accrued in respect of service prior to the valuation date, based on projected final average earnings. The current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period. The current service cost, expressed as a percentage of pensionable earnings, will be stable over time if the demographic characteristics of the active membership remain stable from valuation to valuation. However, all other things being equal, the current service cost of an active membership whose average age rises between actuarial valuations will result in an increasing current service cost.

The supplemental pension plan exposes the OSC to the following risks:

- Changes in bond yields – a decrease in corporate bond yields will increase the plans' liabilities,
- Inflation risk – in plans where the target benefit is not indexed, given the pension offset amounts are linked to inflation, higher inflation will lead to lower liabilities; conversely, for plans where the target benefits are linked to inflation, the OSC's liability increases when inflation increases, and,
- Life expectancy – the majority of the obligations are to provide benefits for the life of the members. Therefore, increases in life expectancy will result in an increase in the plans' liabilities.

There were no plan amendments, curtailments or settlements during the period. The duration of all plans combined is approximately 11.4 years.

The defined benefit obligation continuity schedule after retrospective application of IAS 19, as amended, is as follows:

	March 31, 2014	March 31, 2013	April 1, 2012
Defined benefit obligation, beginning of year	\$2,731,527	\$2,377,607	\$2,021,766
Current service cost	147,095	124,936	83,329
Interest cost	99,622	87,582	101,563
Benefit payments	(149,871)	(145,664)	(147,767)
Actuarial loss on obligation	290,257	287,066	318,716
Defined benefit obligation, end of year	\$3,118,630	\$2,731,527	\$2,377,607

Actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation were as follows:

	March 31, 2014	March 31, 2013
Discount rate	4.10%	3.75%
Inflation	2.50%	2.50%
Expected rate of salary increase	0%	0%
CPP YMPE increase	3.00%	3.00%
Increase in CRA limit	\$2,700.00	\$2,696.67

The assumptions for mortality rates are based on the 2014 Public Sector Mortality Table (CPM2014Publ), with a size adjustment factor for monthly income of \$6,000 and more, and with fully generational projections using the improvement scale CPM-B.

Sensitivity analysis

Changes in the actuarial assumptions used have a significant impact on the defined benefit obligation.

The following is an estimate of the sensitivity of the defined benefit obligation to a change in the significant actuarial assumptions (the sensitivity assumes all other assumptions are held constant):

	March 31, 2014
Discount rate increased by 0.5% (obligation will decrease by)	5.4%
Discount rate decreased by 0.5% (obligation will increase by)	5.9%
Life expectancy increased by 1 year (obligation will increase by)	2.3%
Life expectancy decreased by 1 year (obligation will decrease by)	2.4%
Inflation rate increased by 0.5% (obligation will decrease by)	2.6%
Inflation rate decreased by 0.5% (obligation will increase by)	3.0%

Retrospective application

The revised amount included in the Statement of financial position arising from retrospective application of IAS 19, as amended, to its supplemental benefit plans is as follows:

	March 31, 2014	March 31, 2013	April 1, 2012
Unfunded defined benefit obligation liability attributable to OSC stakeholders prior to change in accounting policy	\$2,206,017	\$2,197,427	\$2,016,341
Increase in supplemental pension plans liability	912,613	534,100	361,266
Unfunded defined benefit obligation liability attributable to OSC stakeholders after change in accounting policy	\$3,118,630	\$2,731,527	\$2,377,607

The revised amounts recognized in the Statement of comprehensive income, including OCI, arising from retrospective application of IAS 19, as amended, to the supplemental benefit plans are as follows:

	March 31, 2013	March 31, 2012
Excess of revenue over expenses prior to change in accounting policy	\$(7,643,018)	\$(4,387,040)
Decrease in supplemental pension plan expense	114,232	25,977
Excess of revenue over expenses after change in accounting policy	\$(7,528,786)	\$(4,361,063)
Total comprehensive income prior to change in accounting policy	\$(7,643,018)	\$(4,387,040)
Decrease in supplemental pension plan expense	114,232	25,977
Remeasurement loss on defined benefit plans	(287,066)	(318,716)
Total comprehensive income after change in accounting policy	\$(7,815,852)	\$(4,679,779)

The OSC's pension expense relating to the supplemental pension plans for the year ended March 31, 2014 was \$246,717 (2013 – \$212,518). The OSC expects to incur \$143,100 (2013 – \$144,000) in benefit payments from the supplemental pension plan during next fiscal year.

13 Capital management

The OSC has established a \$20 million reserve fund, as described in **Note 8**, which it considers as capital. The primary objective of maintaining this capital is to fund OSC's operations in the event of revenue shortfalls and unanticipated expenditures, or to cover the discrepancy between timing of revenue and expenses. The OSC's overall strategy remains unchanged from 2013.

The OSC maintains an investment policy where reserve funds are restricted to direct and guaranteed obligations of the Government of Canada and its provinces, and to instruments issued by Canadian Schedule 1 banks to protect the principal.

The OSC has a \$35 million credit facility with a Schedule 1 financial institution to address any short-term cash deficiencies. Subsequent to March 31, 2014, the OSC received approval from the Minister to replace the \$35 million credit facility with a \$52 million credit facility, which becomes effective July 1, 2014.

The OSC is not subject to any externally imposed capital requirements.

14 Fees

The OSC's fee structure is designed to generate fees that recover the OSC's cost of providing services to market participants. The fee structure is based on the concept of "participation fees" and "activity fees". Participation fees are based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities, and are intended to serve as a proxy for the market participants' use of the Ontario capital markets. Activity fees represent the direct cost of OSC staff resources expended in undertaking certain activities requested of staff by market participants. Late fees represent fees applied to market participants for untimely filing of required documents and/or payment of their participation and activity fees. Any general operating surpluses generated are normally returned to market participants by way of fees that are lower than otherwise required to recover costs or direct refunds.

The Commission revised its participation fees and activity fees effective April 1, 2013, with participation fees being subsequently adjusted at the beginning of fiscal 2015. The effective date of the next fee rule is expected to be April 1, 2015.

Fees received are as follows:

	March 31, 2014	March 31, 2013
Participation fees	\$83,267,321	\$75,310,296
Activity fees	13,208,161	9,615,841
Late filing fees	1,965,794	2,003,900
	\$98,441,276	\$86,930,037

15 Salaries and benefits

	March 31, 2014	March 31, 2013
Salaries	\$62,042,890	\$59,778,078
Benefits	6,736,097	6,288,066
Pension expense	4,786,283	4,551,096
Severance/termination payments	905,917	1,604,766
	\$74,471,187	\$72,222,006

16 Administrative

	March 31, 2014	March 31, 2013
Commission expense	\$1,872,675	\$1,953,225
Communications & publications	1,725,924	1,469,219
Maintenance & support	2,043,621	1,996,279
Supplies	802,870	797,585
Other expenses	674,019	709,650
Training	641,685	680,514
	\$7,760,794	\$7,606,472

17 Contingent liabilities and contractual commitments

- (a) The OSC has committed to paying in full any liability with respect to CSA Systems operation and custody of the related surplus funds that arises as a result of wilful neglect or wilful misconduct on behalf of the OSC.

Under the new agreements, described in **Note 7**, the OSC, ASC, BCSC and AMF, as PAs, have committed to paying an equal share of any claim or expenses related to operation and redevelopment of the CSA Systems that exceed the surplus funds held.

In the current year, there were no such claims or expenses. As described in **Note 7**, the OSC is holding funds in segregated bank accounts that may be used to settle claims and expenses relating to the operation and redevelopment of the CSA Systems.

	March 31, 2014	March 31, 2013
Total accumulated funds	\$112,105,853	\$94,611,541
Available for:		
SEDAR and SEDI	\$52,074,315	\$48,940,037
NRD	59,898,313	45,671,504
Data distribution services	133,225	—
	\$112,105,853	\$94,611,541

- (b) The OSC is involved in various legal actions arising from the ordinary course and conduct of business. The outcome and ultimate disposition of these actions cannot be measured with sufficient reliability at this time. However, management does not expect the outcome of any of these proceedings, individually or in aggregate, to have a material impact on the OSC's financial position. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

18 Related party transactions

(a) Net assets held for CSA Systems redevelopment

In the course of normal operations, the OSC entered into transactions with the Net assets held for CSA Systems redevelopment. Refer to **Note 7** for further details.

(b) IEF

In the course of normal operations, the OSC entered into transactions with the IEF. Refer to **Note 19** for further details.

(c) The Province of Ontario

In the course of normal operations, the OSC entered into transactions with the Province of Ontario as follows:

- (i) The *Securities Act* (Ontario) states that when ordered to do so by the responsible Minister, the OSC shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the fee model as described in **Note 14** and the OSC's practice of setting fees periodically, the OSC is not required to make remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the OSC are subject to appropriate terms and conditions to be agreed with the Ministry.
- (ii) Costs of non-pension benefits for eligible pensioners are paid by the Government of Ontario and are not included in the Statement of comprehensive income.

(d) Compensation to key management personnel

Key management of the OSC are members of the Board of Directors, Chair, Vice-Chairs and Executive Director.

Key management personnel remuneration includes the following expenses:

	March 31, 2014	March 31, 2013
Short-term employee benefits	\$3,683,102	\$3,458,567
Post-employment benefits	302,740	406,642
Total compensation	\$3,985,842	\$3,865,209

19 Investor Education Fund

The IEF was incorporated by letters patent of Ontario dated August 3, 2000 as a non-profit corporation without share capital. The Fund is managed by a separate Board of Directors and its purpose is to increase knowledge and awareness among investors and potential investors, and to support research and develop programs and partnerships which promote investor and financial education in schools and among adult learners.

The OSC is the sole voting member of the Fund. However, the OSC has determined, based on an evaluation of the terms and conditions of the arrangement, that investors in the capital market, rather than the OSC, obtain the benefit or rewards from the activities of the IEF. As such, the OSC does not control the Fund, and the Fund has not been consolidated in the OSC's financial statements as discussed in **Note 2(d)**. The Fund is exempt from income taxes.

Financial statements of the Fund are available on request. During the year, the OSC entered into transactions with the Fund as follows:

- (i) The OSC paid \$3,295,000 to the Fund (2013 – \$3,900,000). These payments were from Funds held pursuant to designated settlements and orders as described in **Note 6**.
- (ii) The OSC has a Management Services agreement with the Fund for the provision of administrative and management services, at cost. For the period ended March 31, 2014, the OSC incurred costs totalling \$1,088,307 (2013 – \$1,000,975) for services related to the Fund. The total cost of these services has been charged to the Fund and, of this amount, \$330,018 is owing to the OSC (2013 – \$502,635).
- (iii) Subsequent to year end, the Commission approved funding totalling \$2,720,000 for the IEF for the 2015 fiscal year.

20 Accounting pronouncements

Effective in the year

A number of new IFRS standards, interpretations and amendments effective for the first time for periods beginning on (or after) April 1, 2013, have been considered or adopted in these financial statements. The nature and effect of each new standard, interpretation and amendment is detailed below.

IFRS 10, Consolidated financial statements

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements* to replace IAS 27, *Consolidated and Separate Financial Statements* and SIC 12, *Consolidation – Special Purpose Entities*. The new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. Determination of control now includes elements of power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. Refer to the Judgments section of **Note 2(d)** for further details.

IFRS 11, Joint arrangements

In May 2011, the IASB issued IFRS 11, *Joint Arrangements* to replace IAS 31, *Interests in Joint Ventures*. The standard outlines the accounting by entities that jointly control an arrangement. Joint control involves the contractual agreed sharing of control, and arrangements subject to joint control are classified as either a joint venture (representing a share of net assets and equity accounted) or a joint operation (representing rights to assets and obligations for liabilities, accounted for accordingly). Refer to the Judgments section of **Note 2(d)** for further details.

IFRS 12, Disclosure of interests in other entities

In May 2011, the IASB released IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. Refer to the Judgments section of **Note 2(d)** for further details.

IFRS 13, Fair value measurement

In May 2011, the IASB released IFRS 13, *Fair value measurement*. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

IFRS 13 was adopted by the OSC for the fiscal year ended March 31, 2014. There was no material adjustment as a result of adoption. Refer to **Note 3** for further details.

IAS 19, Employee benefits

In June 2011, the IASB amended IAS 19, *Employee Benefits*. This amendment eliminated the use of the "corridor" approach and mandates that all remeasurements of the net defined benefit liability or assets be recognized immediately in OCI. It also enhances the disclosure requirements, requiring more information to be disclosed about the characteristics of defined benefit plans and the risk that an entity is exposed to through participation in those plans.

Net interest cost is now calculated by multiplying the discount rate (used to measure the net defined benefit obligation) by the net liability. Changes in the fair value of plan assets and defined benefit obligations are segmented into three components: service costs, net interest on the net defined benefit liabilities and remeasurements of the net defined benefit liabilities. This amendment also clarifies when an entity should recognize a liability and an expense for termination benefits.

The amendments to IAS 19 were retrospectively adopted by the OSC for the fiscal year ended March 31, 2014. There was no material adjustment as a result of adoption and retrospective application was not necessary. Refer to **Note 2(d)**, **Note 3** and **Note 12** for further details.

New and revised in issue, but not yet effective

The following new IFRS standards, interpretations and amendments, which have been issued but are not yet effective for the year ended March 31, 2014, have not been applied in preparing these financial statements. These pronouncements are not expected to have a material impact on the financial statements of the OSC upon adoption.

IFRS 9, *Financial instruments*

IFRS 9, *Financial instruments* as issued in November 2009 and later expanded and amended will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 replaces the multiple classifications for financial assets in IAS 39 with two measurement categories, amortized cost and fair value, which are based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In November 2013, the IASB issued a revised version of IFRS 9, *Financial Instruments*, which introduces a new chapter on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The revised standard permits an entity to apply only the requirements introduced in IFRS 9 (2010) for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss without applying the other requirements of IFRS 9, meaning the portion of the change in fair value related to changes in the entity's own credit risk can be presented in other comprehensive income rather than within the consolidated statements of income.

The amendments to IFRS 9 remove the mandatory effective date of IFRS 9 (2013), IFRS 9 (2010) and IFRS 9 (2009), leaving the effective date open pending the finalization of the impairment and classification and measurement requirements. Notwithstanding the removal of an effective date, each standard permits early application.

IFRIC 21, *Levies*

In May 2013, the IFRS Interpretation Committee issued IFRIC 21, *Levies*. IFRIC 21 provides guidance on when to recognize a liability to pay a levy imposed by government that is accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. Earlier application is permitted.

Ontario Tourism Marketing Partnership Corporation

Management Report

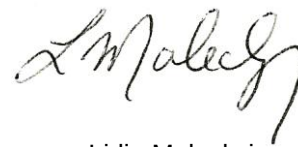
The accompanying financial statements are the responsibility of the management of the Ontario Tourism Marketing Partnership Corporation. The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards. The statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

Management maintains a system of internal accounting and administrative control that is designed to provide reasonable assurance the financial information is relevant, reliable and accurate and that the Corporation's assets are properly accounted for and adequately safeguarded.

The financial statements have been audited by BDO Canada LLP, a firm of independent external auditors appointed by the Board of Directors, whose report follows.



Ronald Holgerson
President and CEO
June 10, 2014



Lidia Maleckyj
Treasurer
June 10, 2014



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Mississauga ON L5B 1M2 Canada

Independent Auditor's Report

To the Board of Directors of
Ontario Tourism Marketing Partnership Corporation

We have audited the accompanying financial statements of Ontario Tourism Marketing Partnership Corporation, which comprise the statement of financial position as at March 31, 2014 and the statement of operations, statement of changes in net assets, and statement of cash flows for the year ended March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Tourism Marketing Partnership Corporation as at March 31, 2014, and the results of its operations and its cash flows for the year ended March 31, 2014 in accordance with Canadian Public Sector Accounting Standards.

BDO CANADA LLP

Chartered Accountants, Licensed Public Accountants

Mississauga, Ontario
June 10, 2014

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Statement of Financial Position

	March 31 2014 (\$ 000)	March 31 2013 (\$ 000)
ASSETS		
Current		
Cash	10,780	2,069
Short-term investments	-	12,000
Accounts receivable	1,295	1,740
Due from the Province of Ontario	4,224	1,037
Prepaid expenses	38	35
	<u>16,337</u>	<u>16,881</u>
Capital assets (Note 3)	<u>1,320</u>	<u>2,036</u>
	<u>17,657</u>	<u>18,917</u>
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	3,709	5,206
Deferred revenue (Note 4)	947	1,030
	<u>4,656</u>	<u>6,236</u>
Obligation for employee future benefits	<u>1,876</u>	<u>1,810</u>
Deferred capital contributions (Note 5)	<u>278</u>	<u>552</u>
	<u>2,154</u>	<u>2,362</u>
	<u>6,810</u>	<u>8,598</u>
Net assets		
Unrestricted fund	-	135
Special projects fund (Note 2i)	9,805	8,700
Investment in capital assets	1,042	1,484
	<u>10,847</u>	<u>10,319</u>
	<u>17,657</u>	<u>18,917</u>

Approved on behalf of the Board:




The accompanying notes are an integral part of these financial statements

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Statement of Operations

For the year ended March 31	2014 (\$ 000)	2013 (\$ 000)
Revenues		
Province of Ontario Grant (Note 6)	44,297	43,667
Advertising sales	2,561	3,235
Travel Information Centres - Sales and rentals	697	746
Interest income	110	144
Trade promotions	108	248
Amortization of deferred contribution	274	258
Marketing research and other revenue	84	242
	<u>48,131</u>	<u>48,540</u>
Expenses		
Advertising and marketing	26,488	24,579
Partnerships and sales	851	1,248
Travel Information Centres (Note 7)	5,368	5,970
Administration (Note 8)	7,062	7,010
Tourism consumer information services	2,640	3,084
Events marketing program	2,018	2,162
Research	667	2,444
Amortization of capital assets	1,319	1,591
Board and committee expenses (Note 9)	64	37
	<u>46,477</u>	<u>48,125</u>
Excess of revenues over expenses	1,654	415

The accompanying notes are an integral part of these financial statements

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Statement of Changes in Net Assets

	Unrestricted Fund (\$ 000)	Special Projects Fund (\$ 000)	Investment in Capital Asset (\$ 000)	2014 Total (\$ 000)	2013 Total (\$ 000)
Net assets , beginning of the year	135	8,700	1,484	10,319	9,904
Excess (deficiency) of revenues over expenditures for the year	2,699	-	(1,045)	1,654	415
Interest income	-	73	-	73	-
Reserve for TCIS redevelopment project	(2,834)	2,834	-	-	-
TCIS redevelopment expenses	-	(1,199)	-	(1,199)	-
Purchase of capital assets, net	-	(603)	603	-	-
Net assets , end of year	-	9,805	1,042	10,847	10,319

The accompanying notes are an integral part of these financial statements

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Statement of Cash Flows

For the year ended March 31	2014 (\$ 000)	2013 (\$ 000)
OPERATING		
Excess of revenues over expenses	1,654	415
Add (less) non-cash items:		
Amortization of deferred capital contributions	(274)	(258)
Amortization of capital assets	1,319	1,591
Obligation for employee future benefits	66	27
	<u>2,765</u>	<u>1,775</u>
Interest Income – Special Project Fund	73	
TCIS Redevelopment Expenses – Special Project Fund	(1,199)	
Change in non-cash working capital	<u>(4,325)</u>	<u>2,255</u>
	<u>(2,686)</u>	<u>4,030</u>
INVESTING		
Sales (purchase) of short-term investments	<u>12,000</u>	<u>(12,000)</u>
CAPITAL		
Capital asset additions	(603)	(121)
Deferred capital contributions	-	121
	<u>(603)</u>	<u>-</u>
Increase (decrease) in cash during the year	8,711	(7,970)
Cash, beginning of year	<u>2,069</u>	<u>10,039</u>
Cash, end of year	<u>10,780</u>	<u>2,069</u>

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2014

1. NATURE OF CORPORATION

The Ontario Tourism Marketing Partnership Corporation (OTMPC) was established as a corporation without share capital on November 30, 1998 pursuant to Ontario Regulation 618/98 made under the *Development Corporations Act*. The Regulation was amended by Ontario Regulation 271/04 in September, 2004 to extend the mandate of the Corporation indefinitely. The Corporation commenced active operations on April 1, 1999. The objects of the Ontario Tourism Marketing Partnership Corporation are:

- (a) to market Ontario as a travel destination;
- (b) to undertake joint marketing initiatives with the tourism industry;
- (c) to support and assist the marketing efforts of the tourism industry; and
- (d) in co-operation with the tourism industry, the Government of Ontario, other governments and other agencies of governments, to promote Ontario as a travel destination.

The Corporation enters into agreements with private and public sector partners in order to add value to tourism marketing programs. The Corporation tracks the dollar value (leverage, in-kind) of such agreements to demonstrate the impact of the Corporation's investment on the partnered marketing programs. However, related partner revenues and expenses are not included in the Corporation's financial statements.

The Corporation is a not-for-profit organization, and thus not subject to income tax.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements are the representations of management and are prepared in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations including the 4200 series of standards contained in the Chartered Professional Accountants (CPA) handbook.

(b) Revenue Recognition

The corporation follows the deferral method of accounting for revenues.

Province of Ontario Grant

The Corporation is funded primarily by the Province of Ontario. Operating grants are recorded as revenue in the period to which they relate. Grants approved but not received at the end of an accounting period are accrued. Where a portion of a grant is related to a future period, it is deferred and recognized in a subsequent period.

Advertising Sales and Travel Information Centers – Sales and rentals

Revenue from Advertising sales and Travel Information Centres – Sales and rentals is recognized in the period in which the service is provided or the program is run, the amount can be reasonably estimated and collection is reasonably assured.

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION
Notes to Financial Statements

March 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest Income

Interest Income is recognized in the period in which it is earned.

Other

Other revenue items are recognized in the period in which they relate, when the amount can be reasonably estimated and collection is reasonably assured.

(c) Partner Support

The Corporation benefits from donated services provided by the tourism industry, such as transportation costs (airline and bus tickets), and accommodation and meal costs (discounted or free hotel rooms and restaurant charges). Because of the difficulty of determining their fair value, donated services are not recognized in the financial statements.

(d) Short-term Investments

Short-term investments consist of Guaranteed Investment Certificates with an initial maturity date of more than 3 months but a maturity date of less than 12 months at the statement of financial position date.

(e) Inventory

Inventory is comprised of merchandise available for sale at the Travel Information Centres.

Inventory is stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis.

(f) Capital Assets

All capital assets are recorded at cost. Amortization is provided on a straight-line basis over the estimated useful life of the asset, with half a year amortization taken in the year of acquisition and disposition. All capital assets are amortized over three to five years.

Assets in progress represent assets under construction or development. These assets are not amortized until they are put in use.

(g) Deferred Capital Contributions

Deferred capital contributions represent amounts received from Ministry of Tourism and Culture and Sport to finance the acquisition of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations on the same basis as the amortization of the related assets.

(h) Investment in Capital Assets

Investment in capital assets represents funds provided for capital assets. The financing of investment in capital assets is transferred from operations on an annual basis.

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION
Notes to Financial Statements**March 31, 2014**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**(i) Special Projects Fund**

The Board approved the creation of a Special Projects Fund to provide for longer term special projects. The Fund represents externally and internally restricted funds required to meet financial costs of long-term special projects approved by the Board. At this time \$5,073,000 (2013 - \$5,000,000) of externally restricted funds and \$4,732,000 (2013 - \$3,700,000) of internally restricted funds are being held for the Tourism Consumer Information Services redevelopment project. Work on this project commenced in the summer of 2013 (Note 10a). Interest is being recorded in the Fund on the externally restricted funds in accordance with the funding agreement.

(j) Use of Estimates

The preparation of financial statements in accordance with Canadian Public Sector Accounting Standards for Not-for-Profit Organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates as additional information becomes available in the future.

(k) Financial Instruments

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency, liquidity or credit risks arising from these financial instruments.

Financial Instruments are recorded at cost when acquired or issued. In subsequent periods, investments traded in an active market are reported at fair value. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

(l) Employee Future Benefits

The costs of any legislated severance under *the Public Service Act of Ontario* and earned by employees are recognized when earned by eligible employees. These costs for the year amounted to \$66,000 (2013 - \$27,000) and are included in obligation for employee future benefits.

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION
Notes to Financial Statements

March 31, 2014

3. CAPITAL ASSETS

	2014		2013	
	(\$ 000)		(\$ 000)	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Furniture	396	364	395	321
Leasehold improvements	1,677	1,599	1,677	1,416
Tourism consumer information system	5,880	5,273	5,880	4,179
Assets in progress	603	-	-	-
	8,556	7,236	7,952	5,916
Cost less accumulated amortization		1,320		2,036

4. DEFERRED REVENUE

	2014	2013
	(\$ 000)	(\$ 000)
Ministry of Tourism, Culture and Sport		
OTICS – Capital projects	895	259
Convention development fund	-	739
Advertising programs	52	32
	947	1,030

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION
Notes to Financial Statements

March 31, 2014

5. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent contributions received relating to acquisition of capital assets:

	2014		2013
	(\$ 000)		(\$ 000)
	Contributions	Accumulated Amortization	Contributions
		Amortization	Amortization
Contributions received	931	653	931
Contributions less accumulated amortization		278	552

6. REVENUE: PROVINCE OF ONTARIO

The Corporation received funding from the Province as follows:

	2014	2013
	(\$ 000)	(\$ 000)
Core funding	40,118	41,510
Research Project	-	1,000
Media Buys	3,961	1,037
Ontario Travel Centres	93	-
Summer Experience Program	125	120
	44,297	43,667

7. TRAVEL INFORMATION CENTRES

The expenditures for the Travel Information Centres are as follows:

	2014	2013
	(\$ 000)	(\$ 000)
Salaries and benefits	3,042	3,187
Accommodation	1,302	1,796
Services	413	297
Transportation and communications	113	83
Supplies and equipment	75	135
Merchandise for sale	423	472
	5,368	5,970

Included in salaries and benefits are contributions to the PSPF and OPSEU pension funds for the year of \$185,000 (2013 - \$181,000).

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

Notes to Financial Statements

March 31, 2014

8. ADMINISTRATIVE EXPENSES

Certain costs of administration such as legal and human resources support services were provided by the Ministry of Tourism, Culture and Sport without charge. All other administrative expenses are borne by the Corporation and are as follows:

	2014 (\$ 000)	2013 (\$ 000)
Salaries and benefits	6,090	6,016
Services	785	823
Transportation and communications	160	142
Supplies and equipment	27	29
	<u>7,062</u>	<u>7,010</u>

The Corporation provides pension benefits for all its full-time employees through participation in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are both multi-employer defined benefit pension plans established by the Province. These plans are accounted for as defined contribution plans, as the Corporation has insufficient information to apply defined benefit plan accounting to these pension plans. Included in salaries and benefits are contributions to the PSPF and OPSEU pension funds for the year of \$419,000 (2013 – \$396,000).

Costs of post-retirement non-pension employee benefits are paid by the Management Board Secretariat and are not included in administrative expenses.

9. BOARD AND COMMITTEE EXPENSES

Board and committee members are reimbursed for travel expenses incurred to attend board of directors and related committee meetings. Board and committee members do not receive per diems to attend board and committee meetings.

ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION
Notes to Financial Statements

March 31, 2014

10. COMMITMENTS

- a) After a competitive procurement process, Hewlett Packard has been awarded a five year contract as the service provider for hosting, operations, maintenance and redevelopment of the Tourism Consumer Information System. The original contract amount of \$30,800,000 has been reduced by \$1,600,000 to \$29,200,000. During the year \$3,519,000 was paid. To-date \$603,000 has been capitalized. (Note 2(i)).
- b) The corporation has various operating leases for its premises and advertising. The minimum annual payments for the next five years and thereafter are as follows:

	<u>(\$ 000)</u>
2015	807
2016	582
2017	573
2018	573
2019	96

Ontario Trillium Foundation

Management's Responsibility For Financial Information

The accompanying financial statements of the Ontario Trillium Foundation are the responsibility of management and have been prepared in accordance with generally accepted accounting principles.

Management maintains a system of internal controls designed to provide reasonable assurance that financial information is accurate and that assets are protected.

The Board of Directors ensures that management fulfils its responsibilities for financial reporting and internal control. The Finance & Audit Committee and the Board of Directors meet regularly to oversee the financial activities of the foundation, and at least annually to review the audited financial statements and the external auditors' report thereon.

The financial statements have been examined by KPMG LLP, independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors' Report outlines the scope of the auditors' examination and opinion.



Andrea Cohen Barrack
Chief Executive Officer



Anne Pashley
Vice-President,
Finance and Administration



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Trillium Foundation

We have audited the accompanying financial statements of Ontario Trillium Foundation, which comprise the statement of financial position as at March 31, 2014, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Trillium Foundation as at March 31, 2014, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

May 8, 2014
Toronto, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP

ONTARIO TRILLIUM FOUNDATION

Statement of Financial Position

March 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Cash	\$ 1,487,604	\$ 1,055,028
Accounts receivable and other	582,955	672,176
Investments (note 2)	138,027,086	139,649,422
Capital assets (note 3)	1,588,123	1,876,252
	\$ 141,685,768	\$ 143,252,878

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued liabilities	\$ 2,469,199	\$ 3,040,752
Deferred contributions (note 4(a))	7,267,527	7,833,584
Grants payable (note 4(b))	129,377,000	129,806,500
	139,113,726	140,680,836

Net assets:

Invested in capital assets	1,588,123	1,876,252
Unrestricted	983,919	695,790
	2,572,042	2,572,042

Commitments (note 8)

	\$ 141,685,768	\$ 143,252,878

See accompanying notes to financial statements.

On behalf of the Board:



Dev Sainani, Chair



Frank Passaro, Treasurer

ONTARIO TRILLIUM FOUNDATION

Statement of Operations

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Revenue:		
Ontario government funding (note 4(a))	\$ 120,566,057	\$ 124,288,117
Grants rescinded or recovered (note 4(a))	3,739,231	4,666,514
Investment income (note 4(a))	2,346,516	2,349,290
Social investment partnership income (note 5)	500,000	—
	127,151,804	131,303,921
Expenses:		
Program activities:		
Grants pledged (note 4(b))	110,974,300	116,641,900
Grantmaking expenses (note 4(a))	13,101,241	12,358,434
Services to the community (note 7)	739,240	464,359
	124,814,781	129,464,693
Support services (note 4(a))	1,828,480	1,337,453
Amortization of capital assets	508,543	501,775
	127,151,804	131,303,921
Excess of revenue over expenses	\$ —	\$ —

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2014, with comparative information for 2013

	2014			2013
	Invested in capital assets	Unrestricted	Total	Total
Net assets, beginning of year	\$ 1,876,252	\$ 695,790	\$ 2,572,042	\$ 2,572,042
Excess (deficiency) of revenue over expenses	(508,543)	508,543	—	—
Purchase of capital assets	220,414	(220,414)	—	—
Net assets, end of year	\$ 1,588,123	\$ 983,919	\$ 2,572,042	\$ 2,572,042

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Amortization of capital assets which does not involve cash	\$ 508,543	\$ 501,775
Change in non-cash operating items	(1,477,889)	(9,140,653)
	(969,346)	(8,638,878)
Capital activities:		
Net purchase of capital assets	(220,414)	(396,157)
Investing activities:		
Purchase of investments	(1,015,416,766)	(1,129,210,760)
Disposal of investments	1,017,039,102	1,138,118,252
	1,622,336	8,907,492
Increase (decrease) in cash	432,576	(127,543)
Cash, beginning of year	1,055,028	1,182,571
Cash, end of year	\$ 1,487,604	\$ 1,055,028

See accompanying notes to financial statements.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements

Year ended March 31, 2014

Ontario Trillium Foundation (the "Foundation" or "OTF"), an agency of the Ministry of Tourism, Culture and Sport ("MTCS"), is financially supported by the Ontario government. OTF began operations as an arm's-length agency of the Ontario government on August 23, 1982 and was incorporated without share capital under the laws of Ontario under letters patent dated November 17, 1982. OTF's purpose is to build healthy and vibrant communities throughout Ontario, by strengthening the capacity of the voluntary sector through investments in community-based initiatives.

Government funding is subject to Memoranda of Understanding that define how the funds must be invested and distributed.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards, including the 4200 standards for government not-for-profit organizations.

(a) Revenue recognition:

OTF follows the deferral method of accounting for contributions, which include government funding. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred.

Investment income is recorded on the accrual basis.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. The Foundation has not elected to carry any such financial instruments at fair value.

Financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest rate method.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations.

As financial instruments are recorded at cost or amortized costs, a statement of remeasurement gains and losses has not been included.

(c) Grants:

Grants are recorded as expenses in the year that the Foundation approves the grant.

(d) Allocation of support services expenses:

The Foundation classifies expenses on the statement of operations by function. The Foundation allocates certain costs by identifying the appropriate basis of allocating and applying that basis consistently each year. The Foundation allocates its support services expenses proportionately on a per capita basis.

(e) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the following periods:

Furniture and fixtures	5 years
Computer hardware	3 years
Computer software	3 years
Leasehold improvements	Over term of lease

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

2. Investments:

	2014	2013
Short-term investments	\$ 65,171,406	\$ 42,688,457
Bonds	—	24,373,775
Laddered bond portfolio	72,855,680	72,587,190
	<u>\$ 138,027,086</u>	<u>\$ 139,649,422</u>

All investments, excluding the laddered bond portfolio, are in fixed income securities and mature within the next eleven months (2013 - nine months). These investments bear interest from 0.87% to 1.12% (2013 - 0.96% to 1.29%).

In OTF's laddered bond portfolio, all bond investments are in fixed income securities and have maturity dates between six months and three years. These investments bear interest from 3.15% to 4.50% (2013 - 3.15% to 5.00%).

The Ontario Financing Authority acts as OTF's investment manager under an investment management agreement that adheres to OTF's policies and procedures governing risk and also includes additional risk concern measures.

3. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and fixtures	\$ 898,555	\$ 712,848	\$ 185,707	\$ 234,769
Computer hardware	1,145,927	909,842	236,085	340,835
Computer software	1,254,472	1,110,523	143,949	157,993
Leasehold improvements	1,414,938	392,556	1,022,382	1,142,655
	<u>\$ 4,713,892</u>	<u>\$ 3,125,769</u>	<u>\$ 1,588,123</u>	<u>\$ 1,876,252</u>

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

4. Deferred contributions and grants payable:

- (a) Deferred contributions represent funding received from Ministries that has not yet been pledged as grants or spent on operations. These funds are restricted until grants are approved by the Board of Directors and pledged to third parties or until operating expenditures made. OTF has controls in place to ensure that the restrictions on grant pledges are met prior to utilization of these funds.

	2014			2013	
	General operations	Community Capital Fund	Youth Opportunities Fund	Total ⁽ⁱ⁾	Total
Deferred contributions, beginning of year	\$ 6,589,580	\$ 1,244,004	\$ –	\$ 7,833,584	\$ 7,121,701
Funding received:					
MTCS:					
Annual core allocation	115,000,000	–	–	115,000,000	120,000,000
Special projects	–	–	–	–	5,000,000
Ministry of Children and Youth Services	–	–	5,000,000	5,000,000	–
	115,000,000	–	5,000,000	120,000,000	125,000,000
Investment income recorded as revenue	2,343,222	–	3,294	2,346,516	2,349,290
Grants pledged	(106,024,300)	–	(4,500,000)	(110,524,300)	(116,641,900)
Grantmaking expenses	(12,129,287)	(455,534)	(466,420)	(13,051,241)	(12,358,434)
Support services and amortization	(2,332,258)	–	(4,765)	(2,337,023)	(1,839,228)
Services to the community	(739,240)	–	–	(739,240)	(464,359)
Grants rescinded or recovered	3,117,431	621,800	–	3,739,231	4,666,514
Amounts recognized as Ontario government funding	(115,764,432)	166,266	(4,967,891)	(120,566,057)	(124,288,117)
Change during the year	(764,432)	166,266	32,109	(566,057)	711,883
Deferred contributions, end of year	\$ 5,825,148	\$ 1,410,270	\$ 32,109	\$ 7,267,527	\$ 7,833,584

⁽ⁱ⁾ In addition to the funding received from the Ministry of Children and Youth Services for Youth Opportunities Fund, OTF also recognized \$500,000 of social investment partnership income during 2014. Of this amount, \$450,000 is included in grants pledged and \$50,000 is included in grantmaking expenses as shown on the statement of operations.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

4. Deferred contributions and grants payable (continued):

Community Capital Fund:

On August 27, 2010, the Foundation signed an agreement with MTCS to administer the Community Capital Fund to provide grants for specific infrastructure projects that support Ontario government priorities and help to revitalize community-based infrastructure by directing funding towards capital assets.

Youth Opportunities Fund:

On November 7, 2013, the Foundation signed an agreement with the Ministry of Children and Youth Services ("MCYS") to administer the Youth Opportunities Fund ("YOF") to provide grants for community-based and positive youth development projects that improve conditions for youth who face multiple barriers to positive outcomes in the Greater Toronto Area.

The total funding to be received from the MCYS is \$5,000,000 per year. During 2014, \$4,967,892 of this funding was spent, of which \$4,500,000 is included in grants pledged.

- (b) Once OTF pledges grants for distribution, the grants are recorded as grants payable. Grants pledged and not yet distributed are payable, subject to the receipt of funds by OTF and to certain performance conditions placed on the recipients. The continuity of grants payable is as follows:

	2014	2013
Grants pledged	\$ 110,974,300	\$ 116,641,900
Grants rescinded	(2,981,400)	(3,715,300)
Grants paid	(108,422,400)	(123,504,000)
	(429,500)	(10,577,400)
Grants payable, beginning of year	129,806,500	140,383,900
Grants payable, end of year	\$ 129,377,000	\$ 129,806,500

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

4. Deferred contributions and grants payable (continued):

Grants are payable to various organizations in the fiscal years ending March 31 as follows:

2015	\$ 84,266,100
2016	32,004,600
2017	10,383,500
2018	2,220,700
2019	502,100
	\$ 129,377,000

5. Social investment partnership income:

Social investment partnership income is the shared resourcing of a program, project or initiative by two or more funders. During 2014, OTF recognized \$500,000 from the Gooder Foundation to support the YOF.

6. Allocation of expenses:

The Foundation allocates certain of its support services expenses based on the proportion of the total staff directly involved with grantmaking and services to the community. The following percentages were used to calculate the allocation: grantmaking, 68% (2013 - 71%) and services to the community, 3% (2013 - 3%).

Support services reported in the statement of operations of \$1,828,480 (2013 - \$1,337,453) are reported after allocation of \$4,320,857 (2013 - \$3,594,261) to grantmaking expenses and \$165,974 (2013 - \$138,596) to services to the community.

7. Services to the community:

Services to the community are charitable activities other than grants, such as convening, knowledge sharing and technical assistance to community organizations.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

8. Commitments:

Future minimum annual rental payments for premises under operating leases are as follows:

2015	\$ 1,269,900
2016	1,184,500
2017	1,186,800
2018	1,237,300
2019	1,270,200
Thereafter	3,330,400
	\$ 9,479,100

In relation to these leases, OTF has agreed to indemnify the landlord against losses occurring on the lease premises which may arise out of a breach of the lease agreement.

9. Indemnification of officers and directors:

OTF has indemnified its past, present and future directors, officers, employees and volunteers against expenses (including legal expenses), judgments, and any amount actually or reasonably incurred by them in connection with any action, suit or proceeding in which the directors are used as a result of their service, if they acted honestly and in good faith with a view to the best interests of OTF. The nature of the indemnity prevents OTF from reasonably estimating the maximum exposure. OTF has purchased directors' and officers' liability insurance with respect to this indemnification.

ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

10. Financial risks:

(a) Liquidity risk:

Liquidity risk is the risk that the Foundation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Foundation manages its liquidity risk by monitoring its operating requirements. The Foundation prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

Accounts payable and accrued liabilities are generally due within 60 days of receipt of an invoice.

There have been no significant changes to the liquidity risk exposure from 2013.

(b) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates, will affect the Foundation's income or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing return on investment.

(c) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Foundation to cash flow interest rate risk. The Foundation is exposed to this risk through its investments.

As at March 31, 2014, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the estimated impact on the market value of bonds would approximate \$1,200,000.

The Foundation's investments are disclosed in note 2.

There has been no change to the interest rate risk exposure from 2013.

Ornge

June 18, 2014

The accompanying consolidated financial statements of Ornge are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards. The preparation of financial statements necessarily involves the use of estimates and assumptions based on management's judgment that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 18, 2014.

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

The Board of Director of Ornge is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board generally meets periodically with management to satisfy itself that such responsibilities have been fulfilled.

The consolidated financial statements for the year ended March 31, 2014 have been audited by Ernst & Young LLP ("E&Y"). E&Y's responsibility is to express an opinion on whether the consolidated financial statements present fairly, in all material respects, the financial position of Ornge as at March 31, 2014 and the results of its operations and its cash flow for the year then ended in accordance with Canadian public sector accounting standards. The Auditors' Report dated June 18, 2014 outlines the scope of E&Y's examination and opinion on the consolidated financial statements.

On behalf of management,



Dr. Andrew McCallum
President & Chief Executive Officer



Dan Wright
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ornge

We have audited the accompanying consolidated financial statements of **Ornge**, which comprise the consolidated statement of financial position as at March 31, 2014 and the consolidated statements of operations and changes in net deficiency, changes in remeasurement gains and losses and cash flows for the year ended March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Ornge** as at March 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



Toronto, Canada,
June 18, 2014.

Chartered Accountants
Licensed Public Accountants

ORNGE**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****(Expressed in thousands of Canadian dollars)****As at March 31**

	2014	2013
ASSETS		
Current		
Cash and cash equivalents	\$ 10,382	\$ 17,112
Accounts receivable	2,987	1,886
Prepaid expenses and deposits	1,775	2,814
Inventory (note 4)	3,104	2,327
Income tax refund	(0)	-
Assets held for sale (note 6)	-	22,454
Derivative financial instruments (note 13)	258	204
	18,506	46,797
Restricted cash and cash equivalents (note 3)	360	478
Capital assets, net (note 5)	201,013	214,758
	219,879	262,033

LIABILITIES AND NET DEFICIENCY

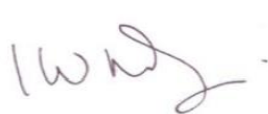
Current		
Short-term loan (note 7)	\$ -	\$ 18,941
Accounts payable and accrued liabilities (note 12)	19,767	19,317
Employee future benefits (note 8)	850	766
Deferred contributions (note 9)	91	201
Capital lease obligation - short term (note 11)	-	477
Derivative financial instruments (note 13)	20	16
Current portion of bonds payable (note 12)	7,157	6,764
	27,885	46,482
Bonds payable (note 12)	278,987	285,991
Deferred contributions (note 9)	97	105
Long-term portion of capital lease obligation (note 11)	-	3,171
Deferred contributions related to capital assets (note 10)	320	709
	307,289	336,458
Commitments and contingencies (note 15 and 16)		

NET DEFICIENCY

Unrestricted net deficiency	(87,647)	(75,035)
Accumulated remeasurement gains and losses	237	610
	(87,410)	(74,425)
	219,879	262,033

See accompanying notes

On behalf of the Board:



Ian W. Delaney



Patricia Volker

ORNGE

CONSOLIDATED STATEMENT OF OPERATIONS AND CHANGES IN NET DEFICIENCY
(Expressed in thousands of Canadian dollars)

Year ended March 31

2014

2013

Revenues

Ontario Ministry of Health and Long-Term Care		
Transport medicine program	\$ 141,484	\$ 138,384
Specifically funded programs (note 14)	13,815	13,851
Other income	4,660	1,211
Recognition of deferred contributions related to capital assets (note 10)	493	884
	160,452	154,330

Expenses

Salaries, employee benefits and other labour-related (note 17)	62,870	65,266
Carrier and fleet-related	50,180	45,853
Supplies, facilities and other	12,944	15,354
Amortization of capital assets	11,664	13,758
Specifically funded programs (note 14)	13,815	13,851
Loss on capital asset disposal	668	764
Interest	17,616	18,037
Capital asset impairment (note 5)	3,484	11,347
	173,241	184,230

Deficiency of revenue over expenses before income taxes	(12,789)	(29,900)
Provision for (recovery of) income taxes	(177)	200
Deficiency of revenue over expenses	(12,612)	(30,100)
Unrestricted net deficiency, beginning of the year	(75,035)	(44,935)
Unrestricted net deficiency, end of the year	(87,647)	(75,035)

See accompanying notes

ORNGE

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in thousands of Canadian dollars)

Year ended March 31

	2014	2013
Operating activities		
Deficiency of revenues over expenses	\$ (12,612)	\$ (30,100)
<i>Add (deduct) items not involving cash</i>		
Amortization - capital assets	11,664	13,758
Amortization - transaction costs	153	149
Recognition of deferred contribution related to capital assets (note 10)	(493)	(884)
Capital asset disposal loss	668	764
Capital asset impairment (note 5)	3,484	11,070
Interest expense	728	821
	3,592	(4,422)
Net change in non-cash working capital balances related to operations (note 10)	(423)	396
Net change in restricted cash and cash equivalents	119	4,018
Cash provided by (used in) operating activities	3,288	(8)
Capital activities		
Proceeds from sale of capital assets	20,233	-
Net termination payment for Hamilton lease (note 11)	(600)	-
Purchase of capital assets	(3,777)	(3,344)
Cash provided by (used in) capital activities	15,856	(3,344)
Financing activities		
Proceeds from (repayment of) short-term loan	(18,941)	8,491
Repayment of capital lease obligation	(273)	(459)
Principal repayment of bond	(6,764)	(3,285)
Receipt of deferred contribution related to capital assets	104	270
Cash (used in) provided by financing activities	(25,874)	5,017
Net (decrease) increase in cash and cash equivalents during the year	(6,730)	1,665
Cash and cash equivalents, beginning of the year	17,112	15,447
Cash and cash equivalents, end of the year	\$ 10,382	\$ 17,112

See accompanying notes

ORNGE**CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES****(Expressed in thousands of Canadian dollars)****Year ended March 31**

	2014	2013
Accumulated remeasurement gains at beginning of year	\$ 610	\$ 278
Unrealized gains (losses) attributable to:		
Derivative (<i>note 13</i>)	403	(276)
Foreign exchange	-	422
Amounts reclassified to the statement of operations:		
Derivative (<i>note 13</i>)	(354)	186
Foreign exchange	(422)	-
Net remeasurement gains and (losses) for the year	(373)	332
Accumulated remeasurement gains at end of year	\$ 237	\$ 610

See accompanying notes

Ornge**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

1. PURPOSE OF THE ORGANIZATION

Ornge together with its consolidated wholly owned subsidiaries [the "Organization"] operate from a number of bases across the province coordinating all aspects of Ontario's aero medical transport system, the critical care land transport program, and the screening of inter-facility transfers of patients within the province. The wholly owned subsidiaries of the Organization are Ornge, Ornge Issuer Trust [the "Trust"], Ornge Global Air Inc., 7506406 Canada Inc., Ornge Corporate Services Inc., Ornge Foundation, Ornge Global Real Estate Inc., and Ornge Real Estate Inc.

Ornge is a registered charity under the Income Tax Act (Canada) [the "Act"] and, as such, is exempt from income taxes pursuant to Section 149 of the Act.

On February 12, 2009, the Trust was created as a special purpose entity under the laws of Ontario pursuant to a declaration of trust. The Organization is the sole beneficiary of the Trust. Pursuant to the Act and Income Tax Regulations, the Trust is subject to income taxes. 4495128 Canada Inc. is the bare trustee of the Trust.

Ornge Global Air Inc. is a for-profit entity incorporated under the Canada Business Corporation Act (Federal). The entity has provided rotary wing and fixed wing services on behalf of the Organization since 2009. Pursuant to the Act and Income Tax Regulations, Ornge Air is subject to income taxes.

7506406 Canada Inc. is a wholly-owned subsidiary of Ornge Air and holds the operational certificate for rotary wing services in the province of Ontario. Pursuant to the Act and Income Tax Regulations, 7506406 Canada Inc. is subject to income taxes.

Ornge Corporate Services Inc. is a for-profit entity incorporated under the Business Corporation Act of Ontario. The entity is currently inactive.

Ornge Foundation is a registered charity, currently inactive.

Ornge Global Real Estate Inc. ["OGRE"] is a for-profit entity incorporated under the Business Corporation Act of Ontario. The entity is the registered owner of the head office building of the Organization. Pursuant to the Act and Income Tax Regulations, OGRE is subject to income taxes.

Ornge Real Estate Inc. ["ORE"] is a for-profit entity incorporated under the Business Corporation Act of Ontario. The entity leases the head office building from OGRE and subleases to Ornge. Pursuant to the Act and Income Tax Regulations, ORE is subject to income taxes.

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

J Smarts was a not-for-profit entity incorporated to promote safe practices and risk prevention in youth sports and recreation. The Organization was the sole member of the entity. On November 1, 2013, J Smarts was dissolved as a result of organizational restructuring.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with the Chartered Professional Accountants of Canada Public Sector Handbook which sets out generally accepted accounting principles for government not-for-profit organizations in Canada. The Organization has chosen to use the standards for not-for-profit organizations that include PS 4200 to PS 4270. The consolidated financial statements have been prepared based on the significant accounting policies summarized below:

[a] Basis of consolidation

All controlled not-for-profit and for profit entities are consolidated into the Organization. The consolidated financial statements include the assets, liabilities and activities of the wholly owned subsidiaries [note 1]. Transactions and balances between the entities have been eliminated in arriving at the consolidated financial statements.

[b] Cash and cash equivalents

Cash and cash equivalents include cash on deposit and investments in highly liquid securities that are readily convertible to known amounts of cash with an original term to maturity of less than 90 days.

[c] Financial instruments other than derivatives

Financial instruments are classified in one of the following categories [i] fair value or [ii] amortized cost. The entity determines the classification of its financial instruments at initial recognition.

Asset/liability	Measurement category
Cash and cash equivalents	Fair value
Restricted cash and cash equivalents	Fair value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Short-term loan	Amortized cost
Capital lease obligation	Amortized cost
Bonds payable	Amortized cost

Ornge**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

Financial instruments that are measured at amortized cost are accounted for using the effective interest rate method. These amounts are initially recorded at their fair value and subsequently measured at amortized cost. Transaction costs related to financial instruments carried at fair value are expensed as incurred. Transaction costs related to items in the amortized cost category are added to the carrying value of the asset or netted against the carrying value of the liability and are then recognized over the expected life of the instrument using the effective interest rate method.

[d] Inventory

The Organization's inventory includes medical supplies and aviation related parts. They are both consumed in the normal course of operations and are not intended for sale. Medical supplies and aviation parts are valued at the lower of cost and replacement cost. Aviation parts less than \$200 are expensed as incurred.

[e] Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis, taking into consideration estimated residual value, over their estimated useful lives:

Buildings	10 - 40 years
Equipment and vehicles	3 - 5 years
Computer equipment and software	3 years
Aircraft airframes	10 - 30 years
Aircraft engines	10 - 20 years
Avionics	5 - 10 years
Rotables	10 - 30 years
Leasehold improvements	Term of lease

Assets under construction are composed of progress payments for assets being built on behalf of the Organization. Amortization is not recorded until construction is substantially complete and the assets are ready for their intended use.

When an asset is retired or abandoned, the book value and accumulated amortization of the asset are removed from the asset accounts. Any losses incurred on retirement or abandonment are recorded as an expense in the year of retirement or abandonment.

Ornge**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

When a capital asset no longer has any long-term service potential to the Organization, the excess of its net carrying amount over any residual value is recognized as an expense in the consolidated statement of operations and changes in net deficiency.

Assets are classified as held for sale when all the criteria in PS 1201.055 are met. The Organization measures the assets held for sale at the lower of their carrying amount and fair value less costs to sell. The gains or losses are recorded in the consolidated statement of operations and changes in net deficiency.

[f] Interest capitalized

Interest on funds used to finance the acquisition of capital assets is capitalized for periods preceding the dates that the assets are available for service. Interest attributed to progress payments and related exchange movements on foreign currency amounts, made on account of aircraft and other significant assets under construction are capitalized and added to the cost of the related asset.

[g] Maintenance and repairs

The Organization has entered into a Power by Hour ["PBH"] contract for the maintenance of fixed wing engines. Maintenance costs are expensed based on the contractual hourly rate, multiplied by actual flight hours.

For maintenance not covered by the PBH contract, line maintenance, routine repairs and major maintenance are expensed as incurred.

[h] Derivative financial instruments

The Organization enters into fuel hedging contracts to manage its commodity price exposures for planning and risk management purposes. The Organization does not utilize derivative financial instruments for trading or speculative purposes. These derivatives are recognized on the consolidated statement of financial position at their fair value with changes in the fair value recognized as derivative loss (gain) in the consolidated statement of remeasurement gains and losses. Fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments.

In the reporting period that these derivatives are derecognized, the accumulated remeasurement gains or loss associated with the derivatives are reversed and reclassified to the consolidated statement of operations and changes in net deficiency.

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

[i] Revenue recognition

The Organization follows the deferral method of accounting for contributions. The majority of the Organization's revenue is received from the Government of Ontario under the terms of its service contract with the Organization.

Unrestricted contributions are recognized as revenue when received or receivable provided the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions are deferred and recognized as revenue in the year in which the related expenses are incurred.

Other income includes organ transfers and billings for uninsured services, which are recognized as revenue when services are provided and when amounts can be reasonably estimated and collection is reasonably assured.

Donation income includes unrestricted donations, which are recognized as revenue when received, and restricted donations, which are recognized as revenue in the year in which the related expenses are incurred.

[j] Foreign currency translation

The monetary assets and liabilities of the Organization denominated in foreign currencies are translated into Canadian dollars at the rates of exchange as at the consolidated statement of financial position date. Revenue and expenses are translated at the monthly average exchange rate.

Exchange gains or losses that arise prior to the settlement are recognized in the consolidated statement of remeasurement gains and losses. In the period of settlement, the cumulative amount of remeasurement gains and losses are reversed in the consolidated statement of remeasurement gains and losses and the exchange gains or losses measured in relation to the exchange rate at the date of the item's initial recognition are recognized in the consolidated statement of operations and changes in net deficiency.

[k] Employee benefit plans

Certain full-time employees of the Organization are members of the Hospitals of Ontario Pension Plan ["HOOPP" or the "Plan"], which is a multi-employer defined benefit pension plan. Defined contribution accounting is applied to the Plan, following the standards for multi-employer plans. Pension costs are expensed based on the funding requirements under the Plan [note 17].

For defined contribution pension plans, required contributions by the Organization are recorded on an accrual basis.

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

[l] Employee future benefits

The Organization provides vested sick-leave programs to Rotary Wing, Paramedics and Operations Control Centre ["OCC"] employee groups. The Organization recognizes a liability and an expense for these sick-leave programs that vest or accumulate in the period in which employees render services to the Organization in return for the benefits. The service period is the period from the date the employee is first eligible for benefits [generally the date of hire] to the expected date of the payment of the benefits.

In addition, there are sick-leave programs for Fixed Wing Pilots and Non-union employees, however, these programs do not vest or accumulate, or cannot be carried forward beyond 12 months after they are earned. As such, the Organization recognizes an expense when the event [the sick leave] that obligates the Organization occurs.

[m] Allocation of expenses

The Organization engages in the Critical Care Land Ambulance ["CCLA"] program. The costs of the CCLA program include personnel, premises and other expenses that are directly related to providing this program. The Organization also incurs a number of general support expenses that are common to the administration of the Organization and of the CCLA program.

The Organization allocates certain of its general support expenses by identifying the appropriate basis of allocation for each component expense and applies that basis consistently each year.

Ornge**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

[n] Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are required to determine the useful lives of the capital assets, the selection of an appropriate method of amortization of the capital assets, assessment of impairment of assets, valuation of derivatives and actuarial assumptions for the non-vesting sick-leave benefit plan. Actual results could differ from those estimates.

The amount of revenue recognized from the Ministry of Health and Long-Term Care ["MOHLTC"] requires a number of estimates. Ornge has entered into accountability agreement with MOHLTC that set out the rights and obligations of the two parties in respect of funding provided to Ornge by MOHLTC.

These accountability agreements set out certain performance standards and obligations that establish acceptable results for the Organization's performance in a number of areas.

If the Organization does not meet its performance standards or obligations, MOHLTC has the right to adjust funding received by the Organization. MOHLTC is not required to communicate certain funding adjustments until after the submission of year-end data. Since this data is not submitted until after the completion of the consolidated financial statements, the amount of MOHLTC funding received during the year may be increased or decreased subsequent to year end. The amount of revenue recognized in these consolidated financial statements represents management's best estimate of amounts that have been earned during the year.

3. RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents consist of the following:

	2014 \$	2013 \$
Restricted for		
Deposit with BNY Trust Company of Canada ["Trustee"] for \$23,877 First Mortgage Series A Bond	172	172
Purchase of capital assets defined by the external donors [note 9]	188	306
	360	478

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

4. INVENTORY

Inventory consists of the following:

	2014 \$	2013 \$
Medical supplies	1,022	1,007
Consumable parts	2,082	1,320
	3,104	2,327

5. CAPITAL ASSETS

Capital assets consist of the following:

	2014	
Cost \$	Accumulated amortization \$	Net book value \$
Land	3,243	—
Buildings	21,345	5,232
Equipment and vehicles	12,215	9,317
Computer equipment and software	4,138	2,830
Aircraft airframes	156,306	19,653
Aircraft engines	41,961	6,568
Avionics	5,443	3,539
Rotables	1,484	151
Leasehold improvements	660	595
Assets under construction	2,103	—
	248,898	47,885
		201,013

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

	2013		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	3,243	—	3,243
Buildings	24,176	4,772	19,404
Equipment and vehicles	11,775	7,619	4,156
Computer equipment and software	3,240	2,001	1,239
Aircraft airframes	157,029	14,039	142,990
Aircraft engines	42,254	4,591	37,663
Avionics	5,485	2,433	3,052
Rotables	875	52	823
Leasehold improvements	662	577	85
Assets under construction	2,103	—	2,103
	250,842	36,084	214,758

During the year ended March 31, 2014, the Organization recorded, as a reduction of cost, impairment of \$3,484 [2013 - \$11,347]: \$3,434 [2013 - \$6,282] related to airframes, aircraft engines and avionics, \$50 [2013 - nil] related to equipment and vehicles and nil [2013 - \$5,065] related to buildings. The Organization also terminated the Hamilton lease [note 11].

6. ASSETS HELD FOR SALE

Assets held for sale consist of the following:

	2014	2013
	\$	\$
Building	—	638
Aircraft airframes, aircraft engines, avionics	—	21,816
	—	22,454

In May 2013, the sale of two AW139 helicopters, classified as assets held for sale as at March 31, 2013, was finalized. Gross proceeds from the sale were \$20,494 for the two aircraft. There was no loss on disposal as a result of the sale due to capital asset impairment recorded during the year ended March 31, 2013 [note 5].

In June 2013, the sale of the Oshawa hangar, classified as assets held for sale as at March 31, 2013, was finalized. Net proceeds from the sale were \$638.

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

7. SHORT-TERM LOAN

On December 15, 2010, the Organization entered into a \$60,000 short-term, unsecured credit facility for a general corporate purpose. The facility allows borrowing under a revolving and a swing line facility. The revolving facility permits borrowing up to \$50,000 and the swing line facility permits borrowing up to \$10,000. Borrowings under the revolving facility are allowed through bankers acceptances, bankers equivalent notes and letters of credit. The swing line facility permits bank overdrafts.

During the year ended March 31, 2014, the short-term loan balance was repaid and the outstanding balance as at March 31, 2014 is nil [2013 - \$18,941].

The Organization is subject to certain covenants associated with the credit facility. The Organization is in compliance with the covenants as at March 31, 2014.

8. EMPLOYEE FUTURE BENEFITS

The Organization allocates to certain employee groups a specified number of days each year for use as paid absences in the event of illness or injury. Employees are permitted to accumulate their unused allocation each year up to the allowable maximum provided in their employment agreements. Accumulated days may be used in future years to the extent that employees' illness or injury exceeds the current year's allocation of sick days. Sick days are paid out at the salary in effect at the time of usage.

All computations and disclosures are determined using a measurement date for accounting purposes as at March 31, 2014. The most recent actuarial valuation of the non-vesting sick-leave benefit plan for accounting purposes was as of March 31, 2014.

[a] Employee future benefit liabilities

	2014 \$	2013 \$
Accrued employee future benefit obligations	936	773
Unamortized actuarial loss, end of year	(86)	(7)
Employee future benefits liabilities	<u>850</u>	<u>766</u>

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

[b] Employee future benefit expenses

	2014	2013
	\$	\$
Current year benefit cost	508	475
Interest on accrued benefit obligation	14	13
Employee future benefit expenses	522	488

For the year ended March 31, 2014, \$444 [2013 - \$422] in benefits were paid.

The significant actuarial assumptions adopted in measuring the Organization's accrued benefit obligations for the non-vesting sick leave are as follows:

	March 31, 2014	March 31, 2013
	%	%
Discount rate	3.50	3.25

The significant actuarial assumptions adopted in measuring the Organization's expense for the non-vesting sick leave are as follows:

	2014	2013
	%	%
Discount rate	3.25	3.50
Salary escalation	3.50	3.50

9. DEFERRED CONTRIBUTIONS

Deferred contributions consist of externally restricted funds received for various purposes. Deferred contributions will be recognized as revenue in the consolidated statement of operations and changes in net deficiency when the applicable expenditures are incurred.

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

	2014 \$	2013 \$
Balance, beginning of year	306	665
Add contributions re CCLA [note 14]	13,801	13,801
Less amount realized	13,919	14,160
Balance, end of year	188	306

10. DEFERRED CONTRIBUTIONS RELATED TO CAPITAL ASSETS

Deferred contributions related to capital assets represent the unamortized amount of contributions received for the purchase of capital assets. Contributions are amortized over the lives of the related assets. The changes in the deferred contribution of capital assets balance for the year ended March 31, 2014 are as follows:

	2014 \$	2013 \$
Deferred contributions related to capital assets, beginning of year	709	1,323
Add contributions received for purchase of capital assets	104	270
Less amortization of deferred contributions related to capital assets	493	884
Deferred contributions related to capital assets, end of year	320	709

11. CAPITAL LEASE OBLIGATION

On October 14, 2010, the Organization entered into an agreement to lease a building and certain associated lands. The lease related to the building was treated as a capital lease.

On October 31, 2013, the Organization terminated the agreement to lease a building and certain associated lands. The Organization paid to the landlord cash of \$600, which includes a termination fee of \$1,400 net of \$800 from the landlord for purchase of the right, title and interest in the building improvements to the capital lease asset. Cost of \$3,055 and \$766 of accumulated amortization were disposed of and the Organization recorded a gain on sale of capital assets of \$486.

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

12. BONDS PAYABLE

	2014 \$	2013 \$
Series A unsecured debenture [a]	265,133	271,803
First Mortgage Series A bond [b]	23,598	23,692
	288,731	295,495
Less unamortized transaction costs	2,587	2,740
	286,144	292,755
Less current portion of bonds payable	7,157	6,764
Long-term portion of bonds payable	278,987	285,991

Principal payments required in each of the next five years and thereafter are as follows:

	\$
2015	7,157
2016	7,607
2017	8,230
2018	8,707
2019	9,213
Thereafter	247,817
	288,731

As at March 31, 2014, \$4,589 [2013 - \$4,704] in accrued interest was included in accounts payable and accrued liabilities.

[a] On June 11, 2009, the Organization issued a Series A unsecured debenture [the "Debenture"] in the amount of \$275,000 to finance the acquisition of certain fixed wing and rotary wing aircraft and related infrastructure, and for general corporate purposes. The Debenture bears interest at 5.73% per annum, calculated annually and payable semi-annually. Until June 11, 2012, the Organization paid interest only [and no principal] on the outstanding Debenture. From December 11, 2012 until maturity, the Organization will pay interest and principal semi-annually. The maturity of the Debenture is June 11, 2034.

Transaction costs related to the issuance of the Debenture, including professional fees, were \$2,549. These costs were recorded against the Debenture amount and are being amortized over the life of the Debenture using the effective interest rate method.

Ornge**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

The fair market value of the Debenture as at March 31, 2014 is \$289,146 [2013 - \$310,794]. The yield on a similar private placement would be 4.71% [2013 - 4.22%]. Given that there is no active secondary market for this issue, the price quoted represents the theoretical value of the Debenture.

The Organization is subject to certain covenants associated with the Debenture. During the year, the Organization was in compliance with these covenants.

- [b] On January 31, 2011, the Organization issued a First Mortgage Series A bond [the "Bond"] in the amount of \$23,877 for the purpose of financing the head office building. The Bond bears interest at 5.60% per annum, calculated semi-annually, and shall be repaid in blended payments of principal and interest monthly. The maturity date of the Bond is January 31, 2036. A mortgage and security interest in and to the Organization's corporate building, the related land and fixtures with a carrying value of \$17,257, and all benefits to be derived from these assets, including the lease of these assets, has been provided as collateral for the bond.

Transaction costs related to the issuance of the Bond, including professional fees, were \$684. These costs were recorded against the Bond amount and are being amortized over the life of the Bond using the effective interest rate method.

The Organization may redeem a portion of or the entire Bond at any time prior to its maturity at a price based on the principal amount then outstanding plus a "make-whole" premium, and accrued and unpaid interest.

The fair market value of the Bond as at March 31, 2014 is \$25,239 [2013 - \$27,192]. The yield on a similar private placement would be 4.86% [2013 - 4.22%]. Given that there is no active secondary market for this issue, the price quoted represents the theoretical value of the Bond.

The Organization is subject to certain covenants associated with the Bond. One of the covenants that the Organization must comply with is the provision of audited consolidated financial statements of the Organization and separate financial statements of OGRE BNY Trust Company of Canada ["Trustee"] the Trustee and the Lead Bondholder, the Canada Life Assurance Company ["Canada Life"]. Canada Life has agreed in writing to waive compliance with the obligation to submit audited financial statements of OGRE for fiscal year 2012 and future years.

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

13. FINANCIAL INSTRUMENTS**[a] Credit risk**

Credit risk is the risk of financial loss to the Organization if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Organization's cash and cash equivalents, restricted cash and cash equivalents and fuel hedging contracts.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at March 31, 2014 was as follows:

	2014 \$	2013 \$
Cash and cash equivalents	10,382	17,112
Restricted cash and cash equivalents	360	478
Accounts receivable	2,987	1,886
Derivative financial instruments, net	238	188
	13,967	19,664

The Organization minimizes its exposure to the risk related to financial assets by investing solely in products that are highly liquid and by entering into agreements solely with large financial institutions with suitable credit ratings.

[b] Liquidity risk

The Organization derives a significant portion of its operating revenue from the Ontario government. The Organization is bound by a Performance Agreement with MOHLTC. MOHLTC provides funds to the Organization for the purposes of delivering the services as described in the Performance Agreement. The Organization is exposed to the risk related to availability of cash resources in order to continue to provide services expected by the Organization's mandate under the Performance Agreement.

To manage liquidity risk, the Organization ensures sound management of available cash resources. The Organization has access to a short-term, unsecured credit facility [note 7] that is used when sufficient cash flow is not available from government funding to cover operating expenditures. The Organization monitors its cash requirements based on financial forecasts and anticipated cash flows.

Ornge**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

[c] Currency risk

The Organization is exposed to currency risk on purchases and warranty claims that are denominated in U.S. dollars. Changes in the applicable exchange rate may impact earnings, and accounts payable and accrued liabilities.

At March 31, 2014, the Organization had the following balances denominated in a foreign currency:

	2014 U.S.\$	2013 U.S.\$
Accounts payable and accrued liabilities	2,304	1,669

A 1% change in the U.S. dollar foreign currency rates would have a \$23 impact on unrestricted net deficiency and accumulated remeasurement gains and losses.

[d] Interest rate risk

The objective of interest rate risk management is to manage and control risk exposures within acceptable parameters.

	2014 \$	2013 \$
Variable rate instruments		
Short-term loan	—	18,941

As the Organization repaid the loan facility during the year, management concluded that there is no interest rate risk relating to the instrument.

A change in the interest rate of the Organization's long-term debt would have an impact on the fair value of the debt but no impact on the consolidated financial statements since the debt is measured at amortized cost and has a fixed rate of interest.

[e] Commodity risk

The Organization requires significant quantities of jet fuel for its aircraft operations. As a result, the Organization is exposed to commodity price risks associated with the variations in the market price for jet fuel. The price of jet fuel is sensitive to, among other things, the price of crude oil,

Ornge**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

refining, and delivery costs. In order to limit the effect of these risks, the Organization has entered into fixed price forward contracts throughout the year.

As at March 31, 2014, the Organization had 11 [2013 – 11] heating oil fixed price forward contracts with major Canadian banks to offset its exposure to the price risk associated with forecasted purchases of jet fuel over the next 11 months. The notional quantity of heating oil hedged is 7,952,705 litres [2013 - 8,235,633 litres] at a strike price ranging from \$0.7985 per litre to \$0.8714 per litre [2013 - \$0.7168 per litre to \$0.8345 per litre]. The fixed price forward contracts do not result in physical delivery of heating oil but are cash settled to offset the effect of price changes. As at March 31, 2014, the fair value of the fixed price forward contracts amounted to an asset of \$238 [2013 - \$188]. During the year ended March 31, 2014, a realized gain of \$354 [2013 - \$186] on settled contracts was included in Carrier and fleet-related expenses.

[f] Fair value hierarchy

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each valuation. The fair value hierarchy is made up of the following levels:

- Level 1 - valuation based on quoted prices [unadjusted] in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data [unobservable inputs].

The fair value hierarchy requires the use of observable data on the market each time such data exists. A financial instrument is classified at the lowest level of hierarchy for which significant input has been considered in measuring fair value.

The cash and cash equivalents and the restricted cash and cash equivalents that the Organization holds as at March 31, 2014 fall within Level 1 of the fair value hierarchy.

The derivative financial instruments that the Organization holds as at March 31, 2014 fall within Level 2 of the fair value hierarchy.

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

14. ALLOCATION OF EXPENSES

The specifically funded program expenses consist of direct program costs and allocation of general support expenses as follows:

	2014 \$	2013 \$
Direct program costs - CCLA	12,169	12,328
Allocation of administrative costs - CCLA	1,632	1,473
Other	14	50
Specifically funded program expenses	<u>13,815</u>	<u>13,851</u>

15. COMMITMENTS**[a] Operating commitments**

The Organization has entered into various operating commitments to receive services in support of the Organization's transport medicine operation. The Organization is also committed under long-term leases for premises in various bases across Ontario.

	CDN \$
Within one year	11,962
Between one and five years	12,733
Beyond five years	<u>1,015</u>

[b] Capital commitments

The Organization has entered into various capital commitments on fixed wing and rotary wing aircraft, and on related equipment. These commitments have durations within one to five years and are denominated in U.S. dollars.

	U.S. \$
Within one year	179
Between one and five years	1,698
Beyond five years	<u>—</u>

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

[c] Letter of credit

As at March 31, 2014, the Organization has a letter of credit outstanding of \$272 [2013 - \$272] expiring in June 2014.

16. CONTINGENCIES

The Organization is subject to various claims and potential claims. Where the potential liability is determinable, management believes that the ultimate disposition of the matters will not materially exceed the amounts recorded in the accounts. In other cases, the ultimate outcome of the claims cannot be determined at this time. Any additional losses related to the claims will be recorded in the year during which the liability is determined or adjustments to the amount recorded are determined to be required.

A legal action against the Organization's former CEO for payment of a loan of \$500 was commenced during 2012 [note 19] and the former CEO filed a counter claim in the amount of \$3,000. The Organization believes it has valid defences to the plaintiff's claims and intends to vigorously defend this case. At this time, these legal proceedings are still ongoing and, accordingly, it is not possible to predict the outcome.

The Organization has indemnified its former and current directors and officers for claims and legal costs related to their services to the Organization.

The Organization is subject to investigations by MOHLTC and the Ontario Provincial Police. The Organization has not recorded any liabilities related to these investigations. No assurance can be given in respect to the ultimate outcome of such investigations at this time. Losses, if any, will be recorded in the year during which such liability is determined.

The Organization participates in the Healthcare Insurance Reciprocal of Canada ["HIROC"]. HIROC is a pooling of the public liability insurance risks of its members. All members of the HIROC pool pay annual premiums which are actuarially determined. All members are subject to assessment for losses, if any, experienced by the pool for the years in which they were members.

17. PENSION PLANS

Certain full-time employees of the Organization are eligible to be members of HOOPP, which is a multi-employer, defined benefit, final average earnings, and contributory pension. The Plan is accounted for as a defined contribution plan following the standards for multi-employer plans. The Organization's contribution to the Plan during the year amounted to \$2,994 and is included in salaries and employee benefits expense and specifically funded programs in the consolidated

Ornge

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Expressed in thousands of Canadian dollars, unless otherwise indicated]

March 31, 2014

statement of operations and changes in net deficiency. Contributions made by the Organization are in accordance with the funding requirements under the Plan. The most recent valuation for financial reporting purposes completed by HOOPP as of December 31, 2013 disclosed net assets available for benefits of \$51,626 million with pension obligations of \$41,478 million, resulting in a surplus of \$10,148 million.

The Organization also maintains a defined contribution pension plan for certain groups of its employees. During 2014, the Organization contributed and expensed an aggregate of \$336 [2013 - \$413] to these plans.

**18. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES
RELATED TO OPERATIONS**

	2014 \$	2013 \$
Decrease (increase) in accounts receivable	(1,101)	497
Decrease in prepaid expenses and deposits	1,039	2,060
Increase in inventory	(777)	(1,092)
Increase (decrease) in accounts payable and accrued liabilities	450	(777)
Increase in employee future benefits	84	67
Decrease in deferred contributions	(118)	(359)
	<u>(423)</u>	<u>396</u>

19. RELATED PARTY TRANSACTIONS

Included in accounts receivable is a loan of \$500 to the former CEO of the Organization. This receivable was fully provided for as at March 31, 2013 and 2014.



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Ottawa, Ontario, Canada K1N 9J2 | F 613-563-7646

Management's Responsibility for Financial Reporting

The accompanying financial statements and the financial information in the annual report have been prepared by management. The financial statements have been prepared in accordance with Canadian public sector accounting standards. Management is responsible for the accuracy, integrity, and objectivity of the information contained in the financial statements. Financial information contained elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. The systems include formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board meets regularly to oversee the financial activities of the Agency and annually reviews the financial statements.

The financial statements have been examined independently by PricewaterhouseCoopers. The Auditor's Report outlines the scope of their examination and expresses their opinion on the financial statements of the company.

Patrick Kelly
President & CEO

Dan Young, CMA
Vice-President, Finance &
Administration

July 14, 2014



June 26, 2014

Independent Auditor's Report

**To the Members of
Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa**

We have audited the accompanying financial statements of Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa, which comprise the statement of financial position as at March 31, 2014, and the statements of operations, changes in net assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

PricewaterhouseCoopers LLP
99 Bank Street, Suite 800, Ottawa, Ontario, Canada K1P 1E4
T: +1 613 237 3702, F: +1 613 237 3963

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa as at March 31, 2014, and the results of its operations, changes in its net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

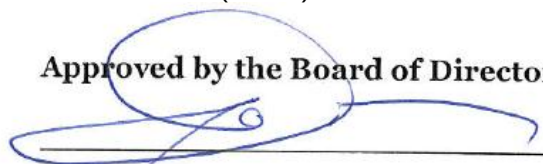
Statement of Financial Position

As at March 31, 2014

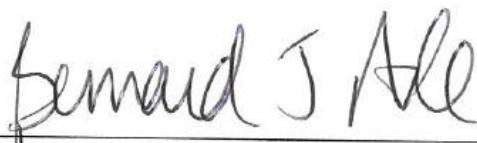
	2014 \$	2013 \$
Assets		
Current		
Cash	1,422,935	1,695,939
Accounts receivable	330,231	506,460
Prepaid expenses	82,423	85,437
	<u>1,835,589</u>	<u>2,287,836</u>
Property, plant and equipment (note 3)	166,008,121	171,192,580
	<u>167,843,710</u>	<u>173,480,416</u>
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	1,668,662	1,893,488
Deferred revenue and deposits	1,767,626	1,953,218
Current portion of long-term debt (note 4)	134,288	128,170
	<u>3,570,576</u>	<u>3,974,876</u>
Deferred revenue and deposits	302,214	366,679
Long-term debt (note 4)	44,972,690	43,195,094
Deferred contributions related to property, plant and equipment (note 5)	113,461,773	116,674,704
	<u>162,307,253</u>	<u>164,211,353</u>
Net assets	<u>5,536,457</u>	<u>9,269,063</u>
	<u>167,843,710</u>	<u>173,480,416</u>

Commitments (note 9)

Approved by the Board of Directors



Director



Director

The accompanying notes are an integral part of these financial statements.

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

Statement of Operations

For the year ended March 31, 2014

	2014 \$	2013 \$
Revenue		
Food and beverage	9,546,728	10,433,710
Space rental	4,044,710	3,822,822
Commissions	1,469,330	1,547,795
Advertising	196,839	222,751
Other	105,847	65,724
Interest earned	24,010	31,025
	<u>15,387,464</u>	<u>16,123,827</u>
Expenses (note 6)		
Direct	6,966,624	7,582,551
Facilities	5,373,891	5,500,524
Selling, general and administrative	2,675,064	2,724,926
	<u>15,015,579</u>	<u>15,808,001</u>
Operating excess of revenue over expenses before undernoted items	371,885	315,826
Interest on long-term debt	(2,013,715)	(1,964,574)
Amortization of deferred contributions related to property, plant and equipment	3,212,931	3,212,931
Amortization of property, plant and equipment	<u>(5,303,707)</u>	<u>(5,299,833)</u>
Excess of expenses over revenue for the year	<u>(3,732,606)</u>	<u>(3,735,650)</u>

The accompanying notes are an integral part of these financial statements.

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

Statement of Changes in Net Assets

For the year ended March 31, 2014

	2014 \$	2013 \$
Net assets – Beginning of year	9,269,063	13,004,713
Excess of expenses over revenue for the year	<u>(3,732,606)</u>	<u>(3,735,650)</u>
Net assets – End of year	<u>5,536,457</u>	<u>9,269,063</u>

The accompanying notes are an integral part of these financial statements.

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

Statement of Cash Flows

For the year ended March 31, 2014

	2014 \$	2013 \$
Cash provided by (used in)		
Operating activities		
Excess of expenses over revenue for the year	(3,732,606)	(3,735,650)
Items not affecting cash –		
Amortization of property, plant and equipment	5,303,707	5,299,833
Amortization of deferred contributions related to property, plant and equipment	(3,212,931)	(3,212,931)
Capitalization of interest to long-term debt	1,911,885	1,085,440
	270,055	(563,308)
Net change in non-cash working capital balances (note 7)	(295,640)	(135,735)
	(25,585)	(699,043)
Capital activities		
Purchase of property, plant and equipment	(119,248)	(555,443)
Decrease in construction holdback payable	–	(251,500)
	(119,248)	(806,943)
Financing activity		
Repayment of long-term debt	(128,171)	(122,331)
Decrease in cash during the year	(273,004)	(1,628,317)
Cash – Beginning of year	1,695,939	3,324,256
Cash – End of year	1,422,935	1,695,939
Supplementary information		
Interest paid	102,327	1,976,469

The accompanying notes are an integral part of these financial statements.

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

Notes to Financial Statements

March 31, 2014

1 Nature of organization

The Ottawa Convention Centre Corporation ("the Centre") was incorporated by a special Act of the Ontario Provincial Legislature. The mandate of the Centre is to operate, maintain and manage an international class convention centre facility in the City of Ottawa in a manner that will promote and develop tourism and industry in Ontario. The Centre is exempt from income taxes.

2 Summary of significant accounting policies

Basis of presentation

The financial statements of the Ottawa Convention Centre Corporation are prepared in accordance with Canadian public sector accounting standards (PSAS), including accounting standards that apply to government not-for-profit organizations.

Revenue recognition

Revenue from food, beverage, space rental and other is recognized when the related goods or services are provided to the customer. Advertising revenue is recognized in the year in which the advertising is provided to the client. Commission revenue is recognized in the year in which the related event is held.

The Centre follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are recognized. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributed materials and services

From time to time, the Centre receives contributed materials and services. Since these materials and services are either not normally purchased by the Centre or the fair value of the materials or services cannot be reasonably estimated, contributed materials and services are not recognized in these financial statements.

Use of estimates

The preparation of the financial statements in conformity with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates made in the preparation of these financial statements include the useful lives of property, plant and equipment, and commission revenues earned. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

Notes to Financial Statements

March 31, 2014

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided for by the straight-line method over the estimated useful life of the various classes of assets, except in the year of acquisition when a pro-rated share of the year's amortization is recorded based on the fiscal quarter in which the asset is acquired. Amortization is calculated at the following rates.

Building	40 years straight-line
Software	5 years straight-line
Furniture, equipment and fixtures	10 years straight-line
Technology network	15 years straight-line

The Centre reviews long-lived assets for impairment whenever events or changes in circumstances indicate the asset no longer has any long-term service potential to the Centre. The impairment loss, if any, is the excess of the carrying value over any residual value. Impairment losses are not reversed in future periods.

Deferred revenue and deposits

Deferred revenue and deposits represent amounts received in advance from customers in relation to services to be rendered in future periods.

Deferred contributions related to property, plant and equipment

Deferred contributions represent amounts received from various levels of government as well as one of the Centre's significant partners, to be used towards the construction and purchase of property, plant and equipment.

Deferred contributions are recognized as revenue on the same basis as the amortization of property, plant and equipment.

Employee future benefits

All full-time employees of the Centre are eligible to be members of the Centre's defined contribution pension plan which offers employees a pension benefit, upon retirement or termination, based on the accumulated contributions made by the individual employee and by the Centre, on their behalf, plus any investment earnings on these contributions. Contributions required to be made by the Centre are recorded in the period in which employee services are rendered.

During the year, the Centre recorded an expense of \$78,027 (2013 – \$73,788) for contributions made to the defined contribution pension plan, which is included in selling, general and administrative expenses.

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

Notes to Financial Statements

March 31, 2014

Financial instruments

The Centre's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, and long-term debt.

The Centre has classified its financial instruments as follows.

Asset/liability	Measurement
Cash	Fair value
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Long-term debt	Amortized cost

The carrying amount of these financial assets and financial liabilities approximates their fair values unless otherwise disclosed.

3 Property, plant and equipment

	2014		
	Cost \$	Accumulated amortization \$	Net carrying amount \$
Building	170,119,370	12,758,070	157,361,300
Software	274,577	233,947	40,630
Furniture, equipment and fixtures	8,373,422	2,502,025	5,871,397
Technology network	2,476,912	495,381	1,981,531
Land	753,263	—	753,263
	<u>181,997,544</u>	<u>15,989,423</u>	<u>166,008,121</u>
	2013		
	Cost \$	Accumulated amortization \$	Net carrying amount \$
Building	170,101,708	8,505,085	161,596,623
Software	274,577	184,270	90,307
Furniture, equipment and fixtures	8,271,836	1,666,107	6,605,729
Technology network	2,476,912	330,254	2,146,658
Land	753,263	—	753,263
	<u>181,878,296</u>	<u>10,685,716</u>	<u>171,192,580</u>

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

Notes to Financial Statements

March 31, 2014

4 Long-term debt

On November 2, 2012 the Centre was granted an amendment to the financing agreement with the Ontario Financing Authority. As a result of the amendment, the Centre will not be required to pay any annual instalments of principal or interest on this loan for a period of up to five years ("Stalled Repayment Period"), during which interest expense will continue to accrue. At the discretion of the Ontario Financing Authority but no later than September 2018, the Centre is required to resume blended interest and principal repayments, based on an adjusted loan amortization schedule which will be provided by the Ontario Financing Authority at the end of the Stalled Repayment Period. The loan has been presented as a long-term liability on the assumption that the Ontario Financing Authority will not request early repayment.

	2014 \$	2013 \$
Loan payable from the Ontario Financing Authority, bearing interest at the province's cost of funds plus 0.525% (2013 – 0.525%), compounded annually, including \$2,997,325 (2013 – \$1,085,440) of capitalized interest. As at March 31, 2014, the interest rate amounted to 4.7% (2013 – 4.7%).	42,997,325	41,085,440
Debt related to acquisition of technology services network, bearing interest of 4.7% per annum and requiring blended monthly payments of \$19,167 (2013 – \$19,167) from April 2011 through March 2026.	2,109,653	2,237,824
	45,106,978	43,323,264
Less: Current portion	134,288	128,170
	44,972,690	43,195,094

Long-term debt, excluding the loan payable to the Ontario Financing Authority, matures over the next five years as follows.

	\$
Year ending March 31, 2015	134,288
2016	140,698
2017	147,414
2018	154,451
2019	161,824

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

Notes to Financial Statements

March 31, 2014

5 Deferred contributions

	2014 \$	2013 \$
Balance – Beginning of the year	116,674,704	119,887,635
Amortization	(3,212,931)	(3,212,931)
Balance – End of year	113,461,773	116,674,704

6 Expenses

Expenses presented by function are represented as follows.

	2014 \$	2013 \$
Direct	6,966,624	7,582,551
Facilities	10,677,598	10,800,357
Selling, general and administrative	2,675,064	2,724,926
Financial	2,013,715	1,964,574
	22,333,001	23,072,408

The above presentation of expenses by function excludes the amortization of deferred contributions related to property, plant and equipment, as these are considered revenue in accordance with the Centre's accounting policies described in note 2.

7 Net change in non-cash working capital balances

The net change in non-cash working capital balances consists of the following changes in current assets and liabilities.

	2014 \$	2013 \$
Accounts receivable	176,229	791,108
Prepaid expenses	3,014	2,001
Accounts payable and accrued liabilities	(224,826)	(1,380,431)
Deferred revenue and deposits – current	(185,592)	351,381
Deferred revenue and deposits – long-term	(64,465)	100,206
	(295,640)	(135,735)

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

Notes to Financial Statements

March 31, 2014

8 Financial instruments and risk management

The following classification system is used to describe the basis of the inputs used to measure the fair values of financial instruments in the fair value measurement category.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Market based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

Cash, being the only financial instrument measured at fair value, was measured as a Level 1 financial instrument.

Credit risk

Credit risk refers to the risk resulting from the possibility that parties may default on their financial obligations to the Centre. The Centre's booking policies are designed to minimize the amounts due from customers upon the conclusion of their event and thereby reduce their credit risk exposure. Further, the Centre's management performs regular reviews of the credit worthiness of its customers and has collection policies that management feels are adequate to minimize losses in this area. The Centre does not consider its accounts receivable as presenting any significant credit risk.

As at March 31, 2014, based on their invoice date, the following accounts receivable were past due but not impaired.

	31 – 60 days \$	61 – 90 days \$	91 – 120 days \$	Over 120 days \$
Accounts receivable	26,149	8,156	–	–

Liquidity risk

Liquidity risk refers to the risk that the Centre will encounter difficulty in meeting obligations associated with financial liabilities. The Centre is exposed to this risk mainly in respect of its long-term debt. As at March 31, 2014, the Centre was in compliance with loan covenants and was able to discharge its liabilities. In November 2012, the Centre successfully renegotiated its long-term debt agreement with the Ontario Financing Authority

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

Notes to Financial Statements

March 31, 2014

(note 4), and as a result, the Centre expects to continue to be in compliance with loan covenants and be able to discharge its liabilities in fiscal 2015 and beyond.

The table below is a maturity analysis of the Centre's financial liabilities as at March 31, 2014 excluding the loan payable to the Ontario Financing Authority (note 4).

	Up to 6 months \$	More than 6 months up to 1 year \$	More than 1 year up to 5 years \$	More than 5 years \$	Total \$
Accounts payable and accrued liabilities	1,591,870	4,414	36,189	36,189	1,668,662
Long-term debt (excluding non-capitalized interest)	66,362	67,927	604,388	1,505,265	2,243,942
	1,658,232	72,341	640,577	1,541,454	3,912,604

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in market interest rates. The Centre has \$42,997,325 (2013 – \$41,085,440) in debt bearing interest at the Province of Ontario's cost of funds plus 0.525% annually (note 4). Management does not consider the Centre to be exposed to significant interest rate risk.

As at March 31, 2014, the Centre's total exposure to interest rate risk is \$42,997,325. The Centre's estimate of the effect on net assets, as at March 31, 2014 of a one percent increase or decrease in the interest rate on long-term debt, with all other variables held constant, would amount to an approximate increase or decrease of \$429,973. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Financing available

The Centre has an unused line of credit of \$5,000,000 (2013 – \$5,000,000) which is available until March 2016. Interest is charged at prime.

Sensitivity analysis

The sensitivity analysis included in this note should be used with caution as the changes are hypothetical and are not predictive of future performance. The above sensitivities are calculated with reference to year-end balances and will change due to fluctuations in the balances in the future. In addition, for the purpose of the sensitivity analysis, the effect of a variation in a particular assumption on the fair value of the financial instruments was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may magnify or counteract the effect on the fair value of the financial instrument.

Ottawa Convention Centre Corporation / Société du Centre des Congrès d'Ottawa

Notes to Financial Statements

March 31, 2014

9 Commitments

The Centre has entered into facility services and technology services agreements related to the operation of the new facility, both expiring in 2026. Under the facility services agreement, among other terms, the Centre will pay a facility management fee of \$220,000 (2013 – \$210,000) with annual escalations of \$10,000 thereafter. Under the technology services agreement, the Centre will make annual payments of \$286,000 (2013 – \$284,000) attributable to the ongoing service agreement. All figures exclude applicable taxes.

10 Capital management

The Centre's objective when managing capital is to maintain its ability to continue as a going concern in order to execute its mandate to operate a world class convention facility. The Centre's capital structure is comprised of its net assets and deferred contributions related to property, plant and equipment. The Centre's objective in management of its capital structure is to ensure access to sufficient cash flow to carry out its ongoing operations and service the debt obligations to the Ontario Financing Authority.

Province of Ontario Council for the Arts

Management's Responsibility for Financial Information

The accompanying financial statements of the Province of Ontario Council for the Arts (the OAC) are the responsibility of management and have been prepared in accordance with Canadian public sector accounting standards.

Management maintains a system of internal controls designed to provide reasonable assurance that financial information is accurate and that assets are protected.

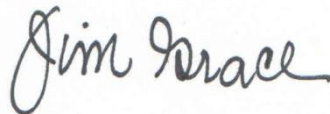
The Board of Directors ensures that management fulfils its responsibilities for financial reporting and internal control. The Finance and Audit Committee and the Board of Directors meet regularly to oversee the financial activities of the OAC, and annually to review the audited financial statements and the external auditor's report thereon.

The financial statements have been audited by the Office of the Auditor General of Ontario, whose responsibility is to express an opinion on the financial statements. The Auditor's Report that appears as part of the financial statements outlines the scope of the Auditor's examination and opinion.

On behalf of management:



Peter Caldwell
Director and CEO



Jim Grace, CPA, CA, CMA
Director of Finance and Administration

June 25, 2014



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

**To the Province of Ontario Council for the Arts and
to the Minister of Tourism, Culture and Sport**

I have audited the accompanying financial statements of the Province of Ontario Council for the Arts (operating as Ontario Arts Council), which comprise the statement of financial position as at March 31, 2014 and the statements of operations and changes in fund balances, remeasurement gains and losses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Province of Ontario Council for the Arts (operating as Ontario Arts Council) as at March 31, 2014, and the results of its operations, its changes in fund balances, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 25, 2014

Gary Peall, CPA, CA, LPA
Deputy Auditor General

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Statement of Financial Position

March 31, 2014, with comparative information for 2013

	2014		2013	
	Operating fund	Restricted and endowment funds	Total	Total
Assets				
Current:				
Cash and cash equivalents	\$ 1,612,526	\$ 3,618,400	\$ 5,230,926	\$ 4,759,234
Accounts receivable	36,465	—	36,465	162,297
Prepaid expenses	41,747	—	41,747	27,687
	1,690,738	3,618,400	5,309,138	4,949,218
Investments (notes 2(b) and 8)	682,935	25,508,098	26,191,033	23,385,843
Capital assets (note 3)	793,572	—	793,572	705,918
	\$ 3,167,245	\$ 29,126,498	\$ 32,293,743	\$ 29,040,979

Liabilities and Fund Balances

Current:				
Accounts payable and accrued liabilities	\$ 946,217	\$ —	\$ 946,217	\$ 623,146
Current portion of employee future benefits (note 2(b))	388,377	—	388,377	440,185
	1,334,594	—	1,334,594	1,063,331
Employee future benefits (note 2(b))	176,965	—	176,965	262,858
Fund balances:				
Invested in capital assets	793,572	—	793,572	705,918
Restricted for endowment purposes (note 4)	—	70,311	70,311	70,311
Restricted (note 5)	—	23,790,876	23,790,876	20,035,548
Unrestricted	726,080	—	726,080	4,140,058
Accumulated remeasurement gains	136,034	5,265,311	5,401,345	2,762,955
	1,655,686	29,126,498	30,782,184	27,714,790
	\$ 3,167,245	\$ 29,126,498	\$ 32,293,743	\$ 29,040,979

Commitments (note 10)

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Statement of Operations and Changes in Fund Balances

Year ended March 31, 2014, with comparative information for 2013

	Operating fund		Restricted and endowment funds		Total	
	2014	2013	2014	2013	2014	2013
(Schedule 3)						
Income:						
General grant - Province of Ontario	\$ 60,537,400	\$ 60,537,400	\$ -	\$ -	\$ 60,537,400	\$ 60,537,400
Special grants:						
Province of Ontario Arts Investment Fund	-	6,000,000	-	-	-	6,000,000
Ministry of Education	-	500,000	-	-	-	500,000
Cultural Development Fund	-	50,000	-	-	-	50,000
Ontario Canada/Ontario French Language Projects	111,265	165,500	-	-	111,265	165,500
Investment income (note 8)	409,640	354,406	1,351,076	43,525	1,760,716	397,931
Fund administration fee (note 6)	57,095	53,559	-	-	57,095	53,559
Recovery of prior years' grants	91,364	56,654	-	-	91,364	56,654
Miscellaneous	85,289	52,025	-	-	85,289	52,025
Contributions	-	-	8,592	2,203	8,592	2,203
	61,292,053	67,769,544	1,359,668	45,728	62,651,721	67,815,272
Expenditures:						
Awards and expenses	-	-	1,229,095	1,102,371	1,229,095	1,102,371
Grants (Schedule 1)	52,124,649	52,373,402	-	-	52,124,649	52,373,402
Arts Investment Fund grants	-	6,011,461	-	-	-	6,011,461
Administration (Schedule 2)	7,287,520	7,196,050	-	-	7,287,520	7,196,050
Services (Schedule 2)	1,581,453	1,571,389	-	-	1,581,453	1,571,389
	60,993,622	67,152,302	1,229,095	1,102,371	62,222,717	68,254,673
Excess of income over expenditures (expenditures over income)	298,431	617,242	130,573	(1,056,643)	429,004	(439,401)
Fund balances, beginning of year	4,915,245	4,231,310	22,799,545	21,069,921	27,714,790	25,301,231
Interfund transfers (note 5 and Schedule 3)	(3,623,950)	(4,744)	3,623,950	4,744	-	-
Net remeasurement gains	65,960	71,437	2,572,430	2,781,523	2,638,390	2,852,960
Fund balances, end of year	\$ 1,655,686	\$ 4,915,245	\$ 29,126,498	\$ 22,799,545	\$ 30,782,184	\$ 27,714,790

See accompanying notes to financial statements.

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Statement of Remeasurement Gains and Losses

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Accumulated remeasurement gains (losses), beginning of year	\$ 2,762,955	\$ (90,005)
Change in net remeasurement gains for the year	2,638,390	2,852,960
Accumulated remeasurement gains, end of year	\$ 5,401,345	\$ 2,762,955

See accompanying notes to financial statements.

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Excess of income over expenditures (expenditures over income)	\$ 429,004	\$ (439,401)
Items not involving cash:		
Gain on income distributions	(1,117,086)	(675,129)
Loss (gain) on sale of investments	(211,064)	715,828
Amortization of capital assets	116,489	174,978
Change in non-cash operating working capital:		
Accounts receivable	125,832	(45,630)
Prepaid expenses	(14,060)	12,080
Accounts payable and accrued liabilities	323,071	(498,011)
Employee future benefits	(137,701)	159,574
	(485,515)	(595,711)
Investing activities:		
Purchase of capital assets	(204,143)	(333,083)
Proceeds from sale of investments	1,161,350	1,016,490
	957,207	683,407
Increase in cash and cash equivalents	471,692	87,696
Cash and cash equivalents, beginning of year	4,759,234	4,671,538
Cash and cash equivalents, end of year	\$ 5,230,926	\$ 4,759,234

See accompanying notes to financial statements.

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements

Year ended March 31, 2014

The Province of Ontario Council for the Arts (operating as Ontario Arts Council) (the "OAC") was established in 1963 by the Government of Ontario to promote the development and enjoyment of the arts across the province. The OAC plays a leadership role in fostering excellence in the arts and making the arts accessible to all Ontarians. The OAC is a registered charity and is exempt from tax under the Income Tax Act (Canada).

1. Significant accounting policies:

(a) Basis of presentation:

The financial statements have been prepared by management in accordance with Accounting Standards for Government Not-for-Profit Organizations, included in the Canadian public sector accounting standards for government not-for-profit organizations.

The OAC follows the restricted fund method of accounting for contributions.

The OAC has elected not to consolidate controlled entities (note 7).

(b) Fund accounting:

Resources are classified for accounting and reporting purposes into funds that are held in accordance with their specified purposes.

The operating fund reports the publicly funded activities of the OAC funded mainly through a general grant from the Province of Ontario.

The restricted and endowment funds are internally restricted by the OAC or by the terms specified by the donors in their trust agreements.

Grant approved to be paid in the future upon specific requirements being met are not included in the statement of operations and changes in fund balances (note 10(b)).

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(c) Cash and cash equivalents:

The OAC considers deposits in banks, guaranteed investment certificates and other instruments that are cashable or with original maturities of three months or less as cash and cash equivalents.

(d) Investment income:

Investment income comprised income (loss) earned (incurred) on pooled investments and bank balances.

Investment income (loss) earned (incurred) related to the operating fund is recognized based on the actual number of units held in the pooled investment set aside for the operating fund.

Investment income (loss) earned (incurred) on the pooled investments related to the restricted and endowment funds is recognized as income (loss) of the restricted and endowment funds.

(e) Employee benefits:

(i) The OAC follows Public Sector Accounting ("PSA") requirements for accounting for employee future benefits, which include post-employment benefits payable upon termination. Under these requirements, the cost of the post-employment benefits paid upon termination is charged to operations annually as earned.

(ii) The OAC accrues for sick leave liabilities for amounts that accrue but not vested.

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(f) Capital assets:

Capital assets are recorded at cost (purchase price). All capital assets are amortized on a straight-line basis over the assets' estimated useful lives as follows:

Audiovisual equipment	5 years
Computer hardware and software	3 years
Furniture and fixtures	5 years
Office equipment	5 years
Leasehold improvements	5 years

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations and changes in fund balances.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and changes in fund balances and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations and changes in fund balances.

The standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 - unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 - observable or corroborated inputs, other than Level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

The fair value of measurements for all of the investments held by OAC are categorized as Level 2.

Derivative financial instruments and portfolio investments in equity instruments that are quoted on an active market and included on the statement of financial position are measured at fair value upon inception.

(h) Foreign currency:

Foreign currency transactions are recorded at the exchange rate at the time of the transaction.

Assets and liabilities denominated in foreign currencies are recorded at fair value using the exchange rate at the financial statement date. Unrealized foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses. In the period of settlement, the realized foreign exchange gains and losses are recognized in the statement of operations and changes in fund balances and the unrealized balances are reversed from the statement of remeasurement gains and losses.

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenditures during the year. Actual results could differ from those estimates.

2. Employee future benefits:

(a) Pension benefits:

The OAC's full-time employees participate in the Public Service Pension Fund ("PSPF"), which is a defined benefit pension plan for employees of the Province of Ontario and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF, determines the OAC's annual payments to the PSPF. Since the OAC is not a sponsor of the PSPF, gains and losses arising from statutory actuarial funding valuations are not assets or obligations of the OAC, as the sponsor is responsible for ensuring that the PSPF is financially viable. The annual payments to the PSPF of \$288,110 (2013 - \$300,913) are included in salaries and benefits in Schedule 2.

(b) Non-pension benefits:

The cost of post-retirement non-pension employee benefits is paid by the Ministry of Government Services and is not included in the statement of operations and changes in fund balances.

The OAC also provides termination benefits earned by eligible employees. The amount of severance payments and unused vacation pay accrued at year end was \$461,340 (2013 - \$592,736), of which \$284,375 (2013 - \$329,878) has been classified as a current liability.

The OAC has set aside funds to meet these liabilities and invested these funds in the same pooled investments as the restricted and endowment funds. As at March 31, 2014, this investment has a market value of \$682,935 (2013 - \$586,298) and is shown under the operating fund as investments.

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2014

3. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Audiovisual equipment	\$ 82,704	\$ 70,924	\$ 11,780	\$ 17,595
Computer hardware and software	487,119	439,650	47,469	71,008
Furniture and fixtures	117,443	89,038	28,405	44,221
Office equipment	64,244	52,087	12,157	17,713
Leasehold improvements	272,711	240,109	32,602	64,629
Assets under development	661,159	—	661,159	490,752
	\$ 1,685,380	\$ 891,808	\$ 793,572	\$ 705,918

4. Fund balances restricted for endowment purposes:

	2014	2013
The Oskar Morawetz Memorial Fund	\$ 26,000	\$ 26,000
Canadian Music Centre John Adaskin Memorial Fund	17,998	17,998
Dr. Heinz Unger Scholarship Fund	17,235	17,235
The Leslie Bell Scholarship Fund	9,078	9,078
	\$ 70,311	\$ 70,311

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2014

5. Internally restricted fund balances:

Included in restricted fund balance of \$29,126,498 is \$7,449,003 of internally restricted funds, which comprise the following:

- (a) During 2014, the OAC authorized an interfund transfer from the operating fund to the internally restricted fund balances as described as follows:

Granting programs fund	\$ 1,535,400
Future leasehold improvements fund	750,000
Board-designated reserve fund	750,000
Information technology modernization fund	583,000
	\$ 3,618,400

- (b) The Venture Fund with a balance of \$3,830,603 (2012 - \$3,295,197) is an internally restricted fund established by the Board to provide grants in support of innovative and experimental artistic endeavours.

6. Related party transactions:

Included in Schedule 2 are administration fees charged by the OAC for providing day-to-day administrative support and services to the restricted and endowment funds held by the OAC. As permitted in the respective agreements, the OAC has levied an administration fee, either on a fixed or percentage basis, on the funds held or on the annual investment income earned by the funds held by the OAC.

	2014	2013
Fund administration fee	\$ 57,095	\$ 53,559

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2014

6. Related party transactions (continued):

During the year, the OAC allocated a portion of its monthly office rental fees and a portion of its general and administrative costs to the Ontario Arts Foundation (formerly Ontario Arts Council Foundation) (the "Foundation"). The Foundation is controlled by the OAC's Board of Directors through election of the Foundation's Board of Directors. General and administrative costs allocated amounted to \$7,200 (2013 - \$7,200) and total rent allocated amounted to \$6,000 (2013 - \$6,000).

The above transactions are in the normal course of operations and are measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.

7. Ontario Arts Foundation:

The Foundation was incorporated under the Ontario Corporations Act on October 15, 1991 and is a registered charity under the Income Tax Act (Canada). The Foundation was established:

- (a) to receive and maintain a fund or funds to apply all or part of the principal and income therefrom to charitable organizations, which are also registered charities under the Income Tax Act (Canada);
- (b) to provide scholarships for study or research in the arts in Ontario or elsewhere; and
- (c) to make awards to persons for outstanding accomplishments in the arts in Ontario or elsewhere.

As defined by the Chartered Professional Accountants of Canada's Accounting Standards Board accounting recommendations for not-for-profit organizations, the OAC technically controls the Foundation in that the OAC's Board of Directors controls the election of the Foundation's Board of Directors.

The Foundation's financial statements have not been consolidated in the OAC's financial statements. There are no restrictions on the resources of the Foundation, nor are there significant differences from the accounting policies used by the OAC.

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2014

7. Ontario Arts Foundation (continued):

The majority of the fund balances, \$46,227,641 of the total of \$67,209,879, represents the balances of the individual arts endowment funds held by the Foundation under the Arts Endowment Fund program of the Government of Ontario for a number of arts organizations. Under this program, money contributed and matched is held in perpetuity. The Board of Directors of the Foundation determines the amount of income that may be paid annually.

Audited financial statements of the Foundation are available upon request. Financial summaries of the Foundation, reported in accordance with PSA, are as follows:

(a) Financial position:

	2014	2013
Assets		
Cash, prepaid expenses and investments	\$ 67,245,428	\$ 61,475,421
Liabilities and Fund Balances		
Accounts payable and accrued liabilities	\$ 35,549	\$ 22,526
Fund balances	67,209,879	61,452,895
	\$ 67,245,428	\$ 61,475,421

(b) Changes in fund balances:

	2014	2013
Fund balances, beginning of year	\$ 61,452,895	\$ 56,662,811
Contributions received	845,726	1,475,097
Investment gain	1,558,923	1,466,682
Fund administration fee	320,546	292,006
Awards and expenses	(4,065,328)	(4,197,470)
Net remeasurement gains	7,097,117	5,753,769
Fund balances, end of year	\$ 67,209,879	\$ 61,452,895

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2014

7. Ontario Arts Foundation (continued):

(c) Cash flows:

	2014	2013
Cash flows from operating activities	\$ (2,879,660)	\$ (2,433,492)
Cash flows from investing activities	3,011,997	2,325,349
	\$ 132,337	\$ (108,143)

8. Investments and investment income:

Net investment income comprises the following:

	2014	2013
Income distributions	\$ 1,117,086	\$ 675,129
Realized gains (losses)	211,064	(715,828)
Bank interest	432,566	359,598
Other	—	79,032
	\$ 1,760,716	\$ 397,931

The asset mix of the investments is as follows:

	2014	2013
Foreign equities, predominantly U.S.	43%	40%
Fixed income securities	24%	30%
Canadian equities	21%	21%
Alternative investments	7%	7%
Cash and cash equivalents	5%	2%

The OAC currently holds \$7,595,400 (cost - \$6,030,741) (2013 - \$7,015,756 (cost - \$6,292,988)) in fixed income securities that are exposed to interest rate price risk. The interest rates range from 0.25% to 8.50% (2013 - 1.50% to 10.95%) for the year ended March 31, 2014.

(OPERATING AS ONTARIO ARTS COUNCIL)

Year ended March 31, 2014

Section 3(5) of the Public Sector Salary Disclosure Act (1996) requires disclosure of Ontario public-sector employees who were paid an annual salary in excess of \$100,000 in the calendar year 2013. For the OAC, this disclosure is as follows:

Name	Title	Salary	Taxable benefits
Peter Caldwell	Director and CEO	\$ 190,526	\$ 301
Jim Grace	Director of Finance and Administration	125,040	198
Carolyn Vesely	Director of Granting	109,300	175
Kirsten Gunter	Director of Communications	101,620	161
Kathryn Townshend	Director of Research	101,425	161
		\$ 627,911	\$ 996

(a) Lease commitments:

The OAC leases office premises and office equipment under operating leases. The future annual minimum lease payments are as follows:

2015	\$ 250,607
2016	407,399
	\$ 658,006

(b) Grant commitments:

The OAC has approved grants of \$758,078 (2013 - \$758,505), which will be paid in future years once the conditions of the grants have been met. These amounts are not reflected in the statement of operations and changes in fund balances. These amounts are included in the internally restricted fund balance, as described in note 5(a).

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2014

11. Economic dependence:

The OAC is dependent on the Province of Ontario for the provision of funds to provide awards and grants and to cover the cost of operations.

12. Financial instruments:

(a) Interest rate and foreign currency risk:

The OAC is exposed to interest rate and foreign currency risk arising from the possibility that changes in interest rates and foreign exchange rates will affect the value of fixed income and foreign currency-denominated investments. The OAC currently does not use any hedging strategies to mitigate the exposure.

(b) Market risk:

Market risk arises as a result of trading equities and fixed income securities. Fluctuations in the market expose the OAC to a risk of loss. The OAC uses two professional investment managers to advise on investment risks, asset selection and mix to achieve an appropriate balance between risks and returns. The Finance and Audit Committee of the Board of Directors of the OAC monitors investments decisions and results and meets regularly with the managers.

(c) Liquidity risk:

Liquidity risk is the risk that the OAC will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The OAC manages its liquidity risk by monitoring its operating requirements. The OAC prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. Accounts payable and accrued liabilities are generally due within 30 days of receipt of an invoice.

There has been no change to the above risk exposures from 2013.

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Schedule 1 - Grants

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Organizations:		
Music	\$ 9,896,985	\$ 9,994,675
Theatre	9,235,703	9,239,317
Dance	5,055,198	5,052,759
Visual arts	4,085,829	4,097,284
Community and multi-disciplinary	3,081,951	3,005,602
Francophone arts*	2,760,925	2,750,649
Literature	2,157,587	2,218,366
Arts service organizations	1,628,583	1,628,583
Touring	1,361,140	1,241,959
Media arts	1,349,275	1,428,710
Arts education	1,211,045	1,228,553
Aboriginal arts	498,727	471,200
Compass (consulting, mentoring and technical assistance)	245,740	233,294
Publishers and periodicals	—	248,958
	42,568,688	42,839,909
Individuals:		
Literature	1,875,360	1,805,080
Visual arts	1,746,439	1,701,192
Media arts	1,326,345	1,048,791
Community and multi-disciplinary	975,689	1,033,463
Music	777,905	752,150
Francophone arts*	681,428	723,909
Arts education	641,642	759,677
Theatre	506,639	548,600
Aboriginal arts	502,273	523,800
Touring	358,670	489,871
Dance	155,971	135,000
Compass (consulting, mentoring and technical assistance)	7,600	11,960
	9,555,961	9,533,493
	\$ 52,124,649	\$ 52,373,402

*Includes all grants paid to organizations and artists who have applied in French.

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Schedule 2 - Administration Expenses and Services

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Administration expenses:		
Salaries and benefits (notes 2, 6 and 9)	\$ 4,864,209	\$ 4,915,406
Consulting and legal fees	666,009	412,459
Office rent and hydro (note 6)	487,832	484,463
Travel	428,570	450,838
Communications	313,263	351,347
Miscellaneous	151,821	84,667
Amortization	116,489	174,978
Meetings	90,061	101,215
Maintenance and equipment rental	47,774	28,682
Personnel hiring and training	42,036	36,195
Office supplies, printing and stationery	40,162	36,573
Telephone, postage and delivery	39,161	71,992
Computer maintenance and support	133	22,575
Program evaluation	—	24,660
	7,287,520	7,196,050
Services:		
Other programs	986,454	967,350
Jurors and advisors	480,734	490,839
Canada/Ontario French language projects	114,265	113,200
	1,581,453	1,571,389
	\$ 8,868,973	\$ 8,767,439

PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Schedule 3 - Restricted and Endowment Funds

Year ended March 31, 2014, with comparative information for 2013

2014	Fund balances, beginning of year	Contributions received	Transfer from operating fund	Investment income	Awards and expenses paid	Fund balances, end of year
The Chalmers Family Fund	\$ 18,851,313	\$ —	\$ —	\$ 3,243,698	\$ (1,156,343)	\$ 20,938,668
The Venture Fund (note 5)	3,295,197	—	—	567,414	(32,008)	3,830,603
The Oskar Morawetz Memorial Fund	252,730	—	—	43,470	(22,406)	273,794
Dr. Heinz Unger Scholarship Fund	87,347	—	—	15,021	(8,829)	93,539
The Leslie Bell Scholarship Fund	110,187	100	5,550	18,987	(1,104)	133,720
The Vida Peene Fund	97,961	8,492	—	16,877	(5,973)	117,357
The John Hirsch Memorial Fund	49,626	—	—	8,545	(482)	57,689
Canadian Music Centre John Adaskin Memorial Fund	32,784	—	—	5,645	(319)	38,110
Colleen Peterson Songwriting Fund	15,103	—	—	2,598	(1,178)	16,523
The Ruth Schwartz Fund	7,297	—	—	1,251	(453)	8,095
Internally restricted funds (note 5)	—	—	3,618,400	—	—	3,618,400
	\$ 22,799,545	\$ 8,592	\$ 3,623,950	\$ 3,923,506	\$ (1,229,095)	\$ 29,126,498

2013	Fund balances, beginning of year	Contributions received	Transfer from operating fund	Investment income	Awards and expenses paid	Fund balances, end of year
The Chalmers Family Fund	\$ 17,545,824	\$ —	\$ —	\$ 2,352,538	\$ (1,047,049)	\$ 18,851,313
The Venture Fund (note 5)	2,929,590	—	—	392,798	(27,191)	3,295,197
The Oskar Morawetz Memorial Fund	224,732	—	—	30,132	(2,134)	252,730
Dr. Heinz Unger Scholarship Fund	77,674	—	—	10,415	(742)	87,347
The Leslie Bell Scholarship Fund	105,183	—	4,744	14,103	(13,843)	110,187
The Vida Peene Fund	91,968	2,203	—	12,331	(8,541)	97,961
The John Hirsch Memorial Fund	44,138	—	—	5,918	(430)	49,626
Canadian Music Centre John Adaskin Memorial Fund	29,145	—	—	3,908	(269)	32,784
Colleen Peterson Songwriting Fund	14,318	—	—	1,920	(1,135)	15,103
The Ruth Schwartz Fund	7,349	—	—	985	(1,037)	7,297
	\$ 21,069,921	\$ 2,203	\$ 4,744	\$ 2,825,048	\$ (1,102,371)	\$ 22,799,545



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ROYAL ONTARIO MUSEUM

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Royal Ontario Museum for the year ending March 31, 2014 are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Royal Ontario Museum are described in the Summary of Significant Accounting Policies contained in Note 1 in the financial statements. 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 prepared within reasonable limits of materiality and in light of information available up to June 20, 2014.

Management maintained a system of internal controls designed to provide reasonable assurance that the assets were safeguarded and that reliable information was available on a timely basis. The system included formal policies and procedures and an organizational structure that provided for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by KPMG LLP, a firm of independent external auditors appointed by the Board of Trustees. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles in Canada. The Auditor's Report, which follows, outlines the scope of their examination and their opinion.

On behalf of Royal Ontario Museum management,

A handwritten signature in black ink, appearing to read 'M. A. Nowak', written over a horizontal line.

Interim Vice-President & CFO

A handwritten signature in black ink, appearing to read 'Glenn Dobbin', written over a horizontal line.

Glenn Dobbin,
Deputy Director & COO/Board Secretary



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INDEPENDENT AUDITORS' REPORT

To the Trustees of The Royal Ontario Museum

We have audited the accompanying financial statements of The Royal Ontario Museum, which comprise the statement of financial position as at March 31, 2014, the statements of operations, changes in net deficit and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Royal Ontario Museum as at March 31, 2014, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, stylized font and is underlined with a single horizontal stroke.

Chartered Professional Accountants, Licensed Public Accountants

June 25, 2014
Toronto, Canada

THE ROYAL ONTARIO MUSEUM

(Incorporated by Special Act of the Ontario Legislature as a corporation without share capital)

Statement of Financial Position
(In thousands of dollars)

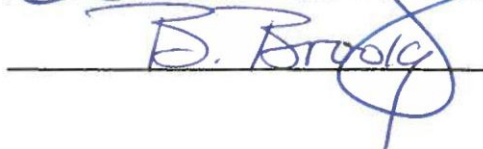
March 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Due from The Royal Ontario Museum Foundation (note 9)	\$ 70	\$ 147
Other accounts receivable	1,477	1,666
Deferred exhibition costs and other assets	1,646	833
Investments (note 2)	347	343
	3,540	2,989
Pension asset (note 10)	9,011	7,239
Capital assets (note 3)	237,509	243,004
	\$ 250,060	\$ 253,232
Liabilities and Net Deficit		
Current liabilities:		
Bank indebtedness (note 11(a))	\$ 4,396	\$ 3,656
Accounts payable and accrued liabilities	8,481	8,434
Current portion of long-term debt (note 11(b))	2,162	4,999
Deferred contributions (note 5)	2,263	2,154
Deferred revenue	3,048	2,693
	20,350	21,936
Long-term debt (note 11(b))	33,345	32,844
Deferred capital contributions (note 6)	199,686	204,213
Accrued non-pension liability (note 10)	8,319	7,843
	261,700	266,836
Net deficit:		
Operating deficit	(13,173)	(14,994)
Board-restricted	1,533	1,390
	(11,640)	(13,604)
Commitments (note 13)		
	\$ 250,060	\$ 253,232

See accompanying notes to financial statements.

On behalf of the Board:

 Trustee

 Trustee

THE ROYAL ONTARIO MUSEUM

Statement of Operations
(In thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

				2014	2013
	Operating Fund	Restricted Fund	Capital Fund	Total	Total
Revenue:					
Grants (note 7)	\$ 29,817	\$ 3,519	\$	\$ 33,336	\$ 32,946
Admission fees	6,827			6,827	8,030
Museum programs	2,188			2,188	2,086
Ancillary services	8,509			8,509	9,057
Investment income		1		1	1
Donations - gifts-in-kind		1,159		1,159	1,350
Amortization of deferred capital contributions			11,471	11,471	11,421
Other	3,993	642		4,635	2,328
	51,334	5,321	11,471	68,126	67,219
Expenses:					
Curatorial and collections management	8,864	2,070		10,934	10,699
Building, security and visitor services	11,706	168		11,874	11,705
Ancillary services	6,181			6,181	6,237
General and administration	4,035			4,035	3,524
Education and public programs	2,185	369		2,554	2,674
Library and information services	2,325			2,325	2,511
Exhibition and gallery development	3,660			3,660	3,665
Marketing and public relations	4,042			4,042	4,102
Temporary exhibitions	4,354			4,354	3,725
Artifacts and specimens:					
Gifts-in-kind		1,159		1,159	1,350
Purchased		1,385		1,385	2,193
Interest	1,377			1,377	1,525
Amortization of capital assets	784	6	11,471	12,261	12,040
Other		21		21	14
Expenses before the undernoted	49,513	5,178	11,471	66,162	65,964
Restructuring - one-time expenditures					3,014
	49,513	5,178	11,471	66,162	68,978
Excess (deficiency) of revenue over expenses	\$ 1,821	\$ 143	\$	\$ 1,964	\$ (1,759)

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM

Statement of Changes in Net Deficit
(In thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

			2014	2013
	Operating Deficit	Board- restricted	Total	Total
Balance, beginning of year	\$ (14,994)	\$ 1,390	\$ (13,604)	\$ (11,845)
Excess (deficiency) of revenue over expenses	1,821	143	1,964	(1,759)
Balance, end of year	\$ (13,173)	\$ 1,533	\$ (11,640)	\$ (13,604)

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	\$ 1,964	\$ (1,759)
Items not involving cash:		
Amortization of capital assets	12,261	12,040
Amortization of deferred capital contributions	(11,471)	(11,421)
Change in non-cash operating working capital:		
Due from The Royal Ontario Museum Foundation	77	612
Other accounts receivable	189	(616)
Deferred exhibition costs and other assets	(813)	1,038
Accounts payable and accrued liabilities	47	931
Deferred contributions	109	(392)
Deferred revenue	355	(304)
Change in deferred pension costs	(1,772)	(1,525)
Change in accrued non- pension liability:	476	283
	1,422	(1,113)
Capital activities:		
Contributions received for capital asset purchases	6,944	7,978
Purchase of capital assets	(6,766)	(4,477)
	178	3,501
Financing activities:		
Repayments of long-term debt	(2,336)	(2,057)
Change in bank indebtedness	740	(323)
	(1,596)	(2,380)
Investing activities:		
Change in investments	(4)	(8)
Increase in cash, being cash, end of year	\$ -	\$ -

See accompanying notes to financial statements.

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2014

The Royal Ontario Museum (the "Museum") is an operating enterprise agency of the Province of Ontario incorporated without share capital by Special Act of the Ontario Legislature. The Museum is Canada's largest museum and one of the few of its kind to explore and exhibit both the art and archaeology of human cultures and the history of the natural world. The Museum's mission is to inspire wonder and build understanding of human cultures and the natural world.

The Museum is registered as a charitable organization under the Income Tax Act (Canada) (the "Act") and, as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes. In order to maintain its status as a registered charity under the Act, the Museum must meet certain requirements within the Act. In the opinion of management, these requirements have been met.

The Museum's multi-year business plan and ongoing forecasts and projections to the Ministry of Tourism, Culture and Sport show that the Museum should be able to operate within the level of its current facility. The Board of Trustees and management will continue to monitor progress to ensure business risks are effectively managed.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian public sector accounting standards, including the 4200 standards for government not-for-profit organizations ("Standards").

(a) Fund accounting:

For financial reporting purposes, the accounts have been classified into the following funds:

(i) Operating Fund:

The Operating Fund accounts for the Museum's general programs, fundraising and administrative activities. The Operating Fund reports resources available for immediate purposes.

(ii) Restricted Fund:

The Restricted Fund consists of those funds where resources are to be used for an identified purpose as specified by the donors and funders.

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(iii) Capital Fund:

The Capital Fund reports the revenue and expenses related to the Museum's building, building improvements, galleries and the Renaissance ROM Project ("ROM Project").

(b) Revenue recognition:

The Museum follows the deferral method of accounting for contributions, which include donations and government grants. Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Donations are recorded on a cash basis since pledges are not legally enforceable claims.

Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which the related expenses are recognized. Externally restricted contributions for the purchase of land are credited directly to net assets. Externally restricted contributions for the purchase of other capital assets are deferred and amortized over the life of the related capital asset.

Membership fees are deferred and recognized as revenue over the term covered by the fees.

Admission fees, museum programs and ancillary services revenue are recorded as revenue when the services have been provided or the goods delivered.

(c) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost. Management records all investments at fair value as they are managed and evaluated on a fair value basis. Long-term debt is recorded at cost.

Unrealized changes in fair value are recognized, when material, in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. A statement of remeasurement gains/losses has not been included in these financial statements as the adjustments are not material.

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 - unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 - observable or corroborated inputs, other than Level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 - unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

Derivative financial instruments are contracts that provide the opportunity to exchange cash flows that are determined by applying certain rates, indices or changes to notional contract amounts. From time to time, the Museum uses interest rate swaps to manage exposure to fluctuations in interest rates and forward foreign currency contracts to manage exposure to fluctuations in exchange rates. These instruments are used for hedging an on-statement of financial position liability or a future contractual obligation.

Derivative financial instruments are carried at fair value. As at March 31, 2014, there are no derivative instruments held by the Museum.

(d) Deferred exhibition costs:

Costs of exhibitions are deferred until the exhibitions are opened to the public and then are expensed over the year of the exhibitions to which they relate.

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(e) Employee future benefits:

The Museum provides defined retirement and other future benefits for substantially all retirees and employees. These future benefits include pension and health and dental benefits.

The Museum accrues its obligations under the defined benefit plans as the employees render the services necessary to earn the pension, compensated absences and other retirement benefits. The actuarial determination of the accrued benefit obligations for pensions and other retirement benefits uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors). The most recent actuarial valuation of the defined benefit pension plan was as of January 1, 2011, and the next required valuation will be as of January 1, 2014. The most recent actuarial valuation of the non-pension plan for accounting purposes was as of March 31, 2012, and the next required valuation will be as of March 31, 2014. The 2014 valuations were not available as at the date of the release of the annual audited financial statements.

Actuarial gains (losses) on plan assets arise from the difference between the actual return on plan assets for a period and the expected return on plan assets for that period. Actuarial gains (losses) on the accrued benefit obligation arise from differences between actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. Actuarial gains (losses) in a year are amortized over the average remaining service period of active employees beginning in the following year. The estimated average remaining service period at March 31, 2014 of the active employees covered by the pension plan is 10 years for the Registered Plan and 8 years for the Supplemental Plan (2013 - 10 years for the Registered Plan and 9 years for the Supplemental Plan). The estimated average remaining service period at March 31, 2014 of the active employees covered by the non-pension plan is 11 years (2013 - 11 years).

Past service costs arising from plan amendments are recognized immediately in the period the plan amendments occur.

Compensated absences, such as parental leaves, accumulated sick days, and sabbaticals that provide compensated, unrestricted time off for past service, are accrued for as they vest or accumulate in the period in which employees render services to the Museum.

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(f) Capital assets:

Purchased capital assets are recorded at cost. Contributed capital assets are recorded at fair value at the date of contribution. Capital assets are amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Building	40 years
Galleries	20 years
Building improvements	5-10 years
Furniture and equipment	3-10 years

Construction in progress comprises direct construction and other costs associated with the ROM Project, including capitalized interest. Interest costs are capitalized during the construction period. No amortization is recorded until construction is substantially complete and the assets are ready for use.

(g) Foreign currency translation:

Foreign currency transactions are recorded at the exchange rate at the time of the transaction.

Assets and liabilities denominated in foreign currencies are recorded at fair value using the exchange rate at the financial statement date. Unrealized foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses when material. In the year of settlement, the realized foreign exchange gains and losses are recognized in the statement of operations and the unrealized balances are reversed from the statement of measurement gains and losses.

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(h) Artifacts and specimens:

The value of artifacts and specimens has been excluded from the statement of financial position. Gifted artifacts and specimens are recorded as revenue at values based on appraisals by independent appraisers. The acquisition of both gifted and purchased artifacts and specimens is expensed.

(i) Contributed materials and services:

Because of the difficulty in determining their fair market value, contributed materials and services are not recognized in these financial statements.

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amount of capital assets, and obligations related to employee future benefits. Actual amounts could differ from those estimates.

2. Investments:

		Fair value	
	Level	2014	2013
Bond funds	2	\$ 125	\$ 121
Preferred securities	1	24	24
Bankers' acceptance		198	198
		\$ 347	\$ 343

The fixed income securities bear a yield to maturity at 1% (2013 - 1%) with a maturity date of June 4, 2014 (2013- May 14, 2013).

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

3. Capital assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 931	\$	\$ 931	\$ 931
Building	41,476	33,936	7,540	8,580
Galleries	17,540	16,600	940	1,478
Building improvements	31,198	18,652	12,546	8,607
ROM Project:				
Building	205,064	37,942	167,122	172,672
Galleries	64,742	20,149	44,593	47,241
Furniture and equipment	7,080	3,243	3,837	3,495
	\$ 368,031	\$ 130,522	\$ 237,509	\$ 243,004

As at March 31, 2014, the total cost of assets included assets which are under construction. These assets are not in use and to date have not been amortized. The cost of these assets is \$1,873 (2013 - \$1,476).

4. Artifacts and specimens:

As at March 31, 2014, the collection consisted of approximately 6,000,000 artifacts and specimens. During the year ended March 31, 2014, the Museum accessioned approximately 6,536 (2013 - 4,320) objects to its collections through the donation and purchase of artifacts.

5. Deferred contributions:

Deferred contributions represent grants from federal and provincial governments, corporations and The Royal Ontario Museum Foundation (the "Foundation") (note 9) related primarily to this year's operations. Grants which carry restrictions are deferred until spent on the intended purpose.

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

6. Deferred capital contributions:

Deferred capital contributions represent the unamortized amount and unspent amount of grants and donations received for the purchase of capital assets and gallery development. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The changes in the deferred capital contributions balance are as follows:

	2014	2013
Balance, beginning of year	\$ 204,213	\$ 207,656
Amortization of deferred capital contributions	(11,471)	(11,421)
Contributions received for capital asset purchases (notes 3 and 9)	6,944	7,978
Balance, end of year	\$ 199,686	\$ 204,213

7. Grants:

	2014	2013
Province of Ontario:		
Operating	\$27,377	\$27,725
Other	(12)	13
Government of Canada	121	36
Foundation (note 9)	5,850	5,172
	\$33,336	\$32,946

8. Expenses:

Expenses are reported in the statement of operations on a functional basis. Expenses by category are as follows:

	2014	2013
Salaries and benefits	\$28,846	\$29,765
Purchased goods and services	23,896	22,809
Amortization of capital assets	12,261	12,040
Gifts-in-kind	1,159	1,350
Restructuring- one-time expenditures		3,014
	\$66,162	\$68,978

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

9. The Royal Ontario Museum Foundation:

The Foundation was incorporated on July 1, 1992 to coordinate all private-sector fundraising activities undertaken on behalf of the Museum and its affiliates. The objective of the Foundation is to raise funds available for enhancing exhibitions and public programs, research, acquisitions and capital projects.

The accounts of the Foundation are presented separately and are not consolidated in these financial statements. The fund balances of the Foundation as at its most recent fiscal year end are as follows:

	June 30, 2013	June 30, 2012
Unrestricted funds	\$ (2,687)	\$ (2,921)
Restricted funds available currently	9,199	9,968
Endowment funds:		
Externally restricted	24,602	23,294
Internally restricted	9,921	10,423
	<u>\$ 41,035</u>	<u>\$ 40,764</u>

During the year ended March 31, 2014, the Foundation granted \$11,124 (2013- \$8,085) to the Museum. Of this amount, \$4,954 (2013 - \$4,103) was recorded as an increase in deferred capital contributions in connection with the ROM Project (note 6) and \$1,980 (2013 - \$1,660) was recorded as deferred contributions for purposes other than the ROM Project (note 5).

Amounts due to/from the Foundation are non-interest bearing and have no fixed terms of repayment.

10. Employee benefits:

The expense for the Museum's benefit plans is as follows:

	2014	2013
Defined benefit plan	\$ 1,364	\$ 1,376
Other post-employment benefits	619	419
	<u>\$ 1,983</u>	<u>\$ 1,795</u>

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

10. Employee benefits (continued):

Information about the Museum's pension and non-pension plans is as follows:

	Pension		Non-pension	
	2014	2013	2014	2013
Accrued benefit obligation	\$ 84,453	\$ 78,715	\$ 8,082	\$ 7,429
Market value of plan assets	94,101	84,399		
Funded status - plan surplus (deficit)	9,648	5,684	(8,082)	(7,429)
Unamortized net actuarial gain (loss)	(637)	1,555	(237)	(414)
Financial position asset (liability)	\$ 9,011	\$ 7,239	\$ (8,319)	\$ (7,843)

Included in the statement of financial position, assets related to the defined benefit pension plan is a liability of \$1,185 (2013 - \$1,159) in connection with supplementary pension arrangements.

The significant actuarial assumptions adopted to determine the expense for the Museum's benefit plans are as follows:

	Pension		Non-pension	
	2014	2013	2014	2013
Discount rate	6.25%	6.50%	3.50%	3.75%
Expected long-term rate of return on plan assets	6.25%	6.50%		
Rate of compensation increase	2.00%	2.00%		

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

10. Employee benefits (continued):

The significant actuarial assumptions adopted in measuring the accrued benefit assets and liabilities of the Museum's benefit plans are as follows:

	Pension		Non-pension	
	2014	2013	2014	2013
Discount rate	6.25%	6.25%	3.80%	3.50%
Rate of compensation increase	2.00%	2.00%		

For measurement purposes as at March 31, 2014, an initial weighted average increase in the cost of health care and dental benefits of 5.80% in 2014 was assumed decreasing to a 4.50% annual rate of increase after 2029.

Other information about the Museum's pension and non-pension plans is as follows:

	Pension		Non-pension	
	2014	2013	2014	2013
Employee contributions	\$ 840	\$ 881	\$	\$
Employer contributions	3,137	2,901	143	136
Benefits paid	5,160	4,057	143	136

The Museum contributes to a multi-employer pension plan. The Museum's contributions to the multi-employer pension plan for the year ended March 31, 2014 were \$20 (2013- \$56).

The Museum's 2013 and 2014 contributions to date were made in accordance with the January 1, 2011 actuarial valuation report for funding purposes. The next actuarial valuation for funding purposes will be as at January 1, 2014 which must be filed by December 31, 2014. The measurement date for the benefits plans was March 31, 2014.

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

11. Credit facilities:

(a) The Museum has a credit agreement with the Museum's banker, as follows:

(i) \$5,000 demand revolving operating credit facility with interest payable at prime less 10 basis points (2014- 2.90%; 2013- 2.90%). As at March 31, 2014, the outstanding balance in connection with this facility was \$4,396 (2013 - \$3,656).

(ii) \$2,000 letter of credit facility. As at March 31, 2014 and 2013, the Museum had no letters of credit outstanding.

(b) On June 29, 2011, the Museum and the Ontario Financing Authority ("OFA") executed an amended agreement that includes a revised payment schedule through March 31, 2027. Under the terms of the agreement, the loan consists of fixed rate and floating rate portions. There is an option, whereby the Museum can elect to convert the fixed rate portion payable to the floating portion. At March 31, 2014, the Museum elected to convert \$2,663 from the fixed portion of the facility to the floating portion. The fixed rate portion bears an interest rate of 5.04% with minimum payments as follows:

The minimum payments are due as follows:

2015	\$ 2,162
2016	1,004
2017	446
2018	446
2019	446
Thereafter	1,340

The floating rate portion of \$29,663 bears interest at the Province of Ontario's one-year cost of funds plus 150 basis points, reset annually. The floating rate for 2014 - 2015 has been set at 2.54%. Under the terms of the facility, there is no minimum payment requirement providing the facility is fully paid by March 31, 2027.

The credit agreement includes covenants which must be met by the Museum and, if not met, the OFA has the right to demand repayment of the outstanding balance.

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

11. Credit facilities (continued):

The fair value of the fixed rate portion approximates its carrying value due to the fact that interest rate on the credit agreement represents the interest rate that is currently available to the Museum. As at March 31, 2014, the fair value of the fixed rate debt was \$5,844.

The fair value of the floating rate portion is comparable to the carrying value as the rate fluctuates with current market rates.

- (c) As collateral for the credit facilities, the Foundation has provided an undertaking to transfer all of its unrestricted donations to the Museum under certain circumstances. In addition, the Museum has assigned all payments from the Foundation restricted for the financing of the ROM Project.

12. Financial risks:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Museum is exposed to credit risk with respect to other accounts receivable. However, it does not expect counterparties to fail to meet their obligations given their high credit rating. There have been no significant changes to the credit risk exposure from 2013.

(b) Liquidity risk:

Liquidity risk is the risk that the Museum will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Museum manages its liquidity risk by monitoring its operating requirements. The Museum prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. The contractual maturities of long-term debt are disclosed in note 11. There have been no significant changes to the liquidity risk exposure from 2013.

THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2014

12. Financial risks (continued):

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates will affect the Museum's income or the value of its holdings of financial instruments. The objective of market risk management is to control market risk exposures within acceptable parameters while optimizing return on investment.

(i) Foreign exchange risk:

The Museum is exposed to financial risks as a result of exchange rate fluctuations and the volatility of these rates with respect to contractual obligations payable in foreign currencies.

(ii) Interest rate risk:

Interest rate risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in the market interest rates. Financial assets and financial liabilities with variable interest rates expose the Museum to cash flow interest rate risk. The Museum is exposed to this risk through its interest-bearing long-term debt, which has fixed and floating rate portions. The Museum mitigates interest rate risk by entering into derivative financial instruments from time to time, as well as by holding primarily debt issued by the financial institutions. There has been no change to the interest rate risk exposure from 2013.

13. Commitments:

The Museum's future commitments under long-term leases for equipment are as follows:

2015	\$ 266
2016	266
2017	260
2018	254

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Management's Report

Management's Responsibility for the Financial Statements

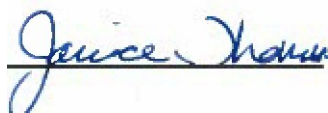
The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all the notes to the financial statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews internal financial statements on a quarterly basis and external audited financial statements yearly.

The external auditors, Grant Thornton LLP, conduct an independent examination in accordance with Canadian auditing standards, and express their opinion on the financial statements. The external auditors have full and free access to financial management of Toronto Organizing Committee for the 2015 Pan American and Parapan American Games and meet when required.

On behalf of the Board

 Director  Director



Independent auditor's report

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To the Audit Committee of the
Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

We have audited the accompanying financial statements of the Toronto Organizing Committee for the 2015 Pan American and Parapan American Games ("Toronto 2015"), which comprise the statements of financial position as at March 31, 2014, March 31, 2013 and April 1, 2012, and the statement of activities and changes in net assets, statement of remeasurement gains and cash flows for the years ended March 31, 2014 and March 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the fund financial statements Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for government not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto 2015 as at March 31, 2014, March 31, 2013 and April 1, 2012, and the results of its activities and its cash flows for the years ended March 31, 2014 and March 31, 2013 in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Grant Thornton LLP

Toronto, Canada
June 26, 2014

Chartered accountants
Licensed Public Accountants

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Statements of Financial Position

(In thousands of dollars)

March 31, 2014

	Operating Fund		Venue Development Fund		Total	
	March 31, 2014	March 31, 2013	April 1, 2012	March 31, 2014	March 31, 2013	April 1, 2012
Assets						
Current						
Cash and cash equivalents	\$ 16,218	\$ 14,355	\$ 4,960	\$ 43,444	\$ 11,647	\$ 6,144
Contributions receivable						
- Government of Canada		-	-	77,966	39,974	3,881
- Province of Ontario	2,208	-	-	-	-	-
- Municipalities	-	-	-	76,189	34,026	10,431
Prepaid expenses and other assets	5,595	1,111	658	783	1,101	1,427
Inter-fund receivable/(payable)	565	522	-	(565)	(522)	-
	<u>\$ 24,586</u>	<u>\$ 15,988</u>	<u>\$ 5,618</u>	<u>\$ 197,817</u>	<u>\$ 86,226</u>	<u>\$ 21,883</u>
				<u>\$ 222,403</u>	<u>\$ 102,214</u>	<u>\$ 27,501</u>
Liabilities and net assets						
Current						
Accounts payable and accrued liabilities	\$ 18,695	\$ 5,009	\$ 2,850	\$ 171,710	\$ 84,327	\$ 15,901
Deferred contribution						
- Government of Canada	-	-	-	25,941	1,899	5,982
- Province of Ontario	-	7,414	434	-	-	434
Deferred revenue (Note 4)	3,544	2,034	1,941	-	-	1,941
Accrued liability – Ministry of Citizenship And Immigration (Note 8)	-	-	393	-	-	393
	<u>22,239</u>	<u>14,457</u>	<u>5,618</u>	<u>197,651</u>	<u>86,226</u>	<u>21,883</u>
				<u>\$ 190,405</u>	<u>\$ 89,336</u>	<u>\$ 18,751</u>
Accrued employee completion incentive (Note 5)	1,731	1,531	-	166	-	-
	<u>23,970</u>	<u>15,988</u>	<u>5,618</u>	<u>197,817</u>	<u>86,226</u>	<u>21,883</u>
				<u>221,787</u>	<u>102,214</u>	<u>27,501</u>
Net assets – operating and venue	-	-	-	-	-	-
Accumulated remeasurement gains	616	-	-	616	-	-
Total net assets – operating and venue	<u>616</u>	<u>-</u>	<u>-</u>	<u>616</u>	<u>-</u>	<u>-</u>
	<u>\$ 24,586</u>	<u>\$ 15,988</u>	<u>\$ 5,618</u>	<u>\$ 197,817</u>	<u>\$ 86,226</u>	<u>\$ 21,883</u>
				<u>\$ 222,403</u>	<u>\$ 102,214</u>	<u>\$ 27,501</u>

Commitments (Note 10)

See accompanying notes to the financial statements.

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Statements of Activities and Changes in Net Assets

(In thousands of dollars)

For the Period Ending March 31, 2014

	Operating Fund		Venue Development Fund		Total	
	2014	2013	2014	2013	2014	2013
Revenue						
Contributions						
- Government of Canada	\$ -	\$ -	\$ 138,191	\$ 55,635	\$ 138,191	\$ 55,635
- Province of Ontario (Note 9)	53,683	23,320	-	-	53,683	23,320
- Municipalities	-	-	120,389	48,409	120,389	48,409
Sponsorship revenue (Note 6)	15,103	5,558	-	-	15,103	5,558
Licensing and merchandising revenue	29	-	-	-	29	-
Realized gains on foreign exchange	32	-	-	-	32	-
Interest income	156	128	378	5	534	133
Total revenues	69,003	29,006	258,958	104,049	327,961	133,055
Expenses						
New builds	-	-	234,568	91,004	234,568	91,004
Renovations	-	-	23,560	11,697	23,560	11,697
Other projects	-	-	830	1,348	830	1,348
Marketing and ceremonies	19,042	10,061	-	-	19,042	10,061
Technology	10,758	1,650	-	-	10,758	1,650
Corporate	10,620	9,259	-	-	10,620	9,259
Sport, venue management and overlay	7,829	1,564	-	-	7,829	1,564
Essential services	7,471	1,013	-	-	7,471	1,013
Administrative services	6,826	4,180	-	-	6,826	4,180
Games services	6,457	1,278	-	-	6,457	1,278
Total expenses	69,003	29,006	258,958	104,049	327,961	133,055
Excess of revenue over expenses	-	-	-	-	-	-
Net assets – operating and venue, beginning of year	-	-	-	-	-	-
Net assets – operating and venue, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the financial statements.

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Statements of Remeasurement Gains

(In thousands of dollars)

For the Period Ending March 31,	2014	2013
Accumulated remeasurement gains, beginning of year	\$ -	\$ -
Unrealized gains (losses) attributable to foreign currency translation	<u>616</u>	<u>-</u>
Accumulated remeasurement gains, end of year	<u>\$ 616</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Statements of Cash Flows

(In thousands of dollars)

March 31,	2014	2013
Increase (decrease) in cash		
Cash received:		
Contributions		
- Government of Canada	\$ 124,242	\$ 15,460
- Province of Ontario	44,093	30,300
- Municipalities	85,458	22,424
Interest and sundry revenue	497	164
Sponsorship and broadcast revenues	<u>6,295</u>	<u>4,100</u>
	<u>260,585</u>	<u>72,448</u>
Cash paid:		
Pan American Sports Organization	3,412	3,273
Salaries, wages and benefits	27,094	12,408
Suppliers of professional services	5,425	2,311
Other suppliers	5,698	7,148
Venue owners	<u>185,296</u>	<u>32,410</u>
	<u>226,925</u>	<u>57,550</u>
Increase in cash and cash equivalents	33,660	14,898
Cash and cash equivalents, beginning of year	<u>26,002</u>	<u>11,104</u>
Cash and cash equivalents, end of year	\$ <u>59,662</u>	\$ <u>26,002</u>

See accompanying notes to the financial statements.

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Notes to the financial statements

(In thousands of dollars)

March 31, 2014

1. Organization

On November 6th 2009, the City of Toronto, Ontario ("ON"), Canada, was awarded the right to host the 2015 Pan American and ParaPan American Games (the "Games") by the Pan American Sports Organization ("PASO") based in part upon the efforts of the Toronto 2015 Bid Corporation ("BIDCO"). The Games will be staged in Toronto and the Greater Golden Horseshoe Area from July 10th to July 26th, 2015 and August 7th to August 14th 2015 respectively.

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games ("TO2015") was incorporated by Letters Patent pursuant to the Corporations Act (Ontario) on January 21, 2010 and is a corporation without share capital. TO2015 is exempt from income taxes under the Income Tax Act (Canada).

TO2015 is governed by a Board of Directors consisting of twelve members. Three of these members are appointed by the Government of Canada; three are appointed by the Province of Ontario; one is appointed by the City of Toronto; four are appointed by the Canadian Olympic Committee ("COC"), and one by the Canadian Paralympic Committee ("CPC").

TO2015's primary purpose is to plan, organize, finance, promote and stage the Games. The Multi-Party agreement (MPA) which is between the Government of Canada, the Province of Ontario, the City of Toronto, the COC, the CPC, and TO2015, outlines the rights and obligations of each party to the agreement with respect to the funding and staging of the Games. TO2015 will execute its purpose through the terms of the following key agreements:

- The Host City agreement establishes the rights and obligations of PASO, COC and TO2015.
- The Joint Marketing Programme Agreement, between the COC, the Province of Ontario and TO2015 establishes the rights and obligations pertaining to marketing and sponsorship activities.
- The 2015 Pan Parapan American Games Ontario Support Agreement between the Province of Ontario, the City of Toronto and TO2015 establishes the rights and obligations pertaining to operational funding.
- The Transfer Payment Agreement ("TPA") between the Province of Ontario and TO2015 establishes the rights and obligations pertaining to the Operating Fund.
- The Hosting Program Contribution Agreement between the Government of Canada and TO2015 establishes the rights and obligations pertaining to the Venue Development Fund.

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Notes to the financial statements

(In thousands of dollars)

March 31, 2014

2. Conversion to Public Sector Accounting Standards

Effective April 1, 2012, TO2015 adopted the requirements of the accounting framework, Canadian Public Sector Accounting Standards for Not-for-Profit Organizations (PSAS for NPOs). These are TO2015's first financial statements prepared in accordance with this framework and the transitional provisions of Section PS 2125 First-time Adoption by Government Organizations have been applied. Section PS 2125 requires retrospective application of the accounting standards with certain elective exemptions and mandatory exceptions. The accounting policies set out in the Summary of Significant Accounting Policies, with the exception of financial instruments, have been applied in preparing the financial statements for the year ended March 31, 2014, the comparative information presented in these financial statements for the year ended March 31, 2013 and in the preparation of the opening PSAS for NPOs statement of financial position at the date of transition of April 1, 2012. As described below, the accounting policies for financial instruments and foreign currency translation have only been applied prospectively.

TO2015 issued financial statements for the year ended March 31, 2013 using generally accepted accounting principles prescribed by the CPA Canada Handbook – Accounting Part III – Accounting Standards for Not-for Profit Organizations. The adoption of PSAS for NPOs resulted in no adjustments to the previously reported assets, liabilities, net assets, excess of revenue over expenses, and cash flows of the organization.

Section PS 2125 First-time Adoption by Government Organizations contains optional exemptions from full retroactive application of PSAS for NPOs which the TO2015 may use upon transition. TO2015 did not elect to use any of the exemptions at the date of transition.

Financial Instruments and foreign currency translation

On April 1, 2013, TO2015 adopted Sections PS 3450 Financial Instruments and PS 2601 Foreign Currency Translation. These new standards address the classification, recognition and measurement of financial instruments and accounting and reporting transactions that are denominated in a foreign currency, respectively, and are effective for years beginning on or after April 1, 2013, however they may only be prospectively applied in the year of transition for those entities transitioning from the CPA Canada Handbook – Accounting Part III – Accounting Standards for Not-for Profit Organizations. This accounting change resulted in no adjustments to net assets upon adoption.

3. Summary of significant accounting policies

Basis of accounting

These financial statements have been prepared by management in Canadian dollars in accordance with Canadian public sector accounting standards for government not-for-profit organizations, which includes the 4200 series of not-for-profit accounting standards, as issued by the Canadian Public Sector Accounting Board (PSAB).

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Notes to the financial statements

(In thousands of dollars)

March 31, 2014

3. Summary of significant accounting policies (continued)

Use of estimates

The preparation of TO2015's financial statements, in accordance with PSAS for NPOs, requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant estimates made by management are the assessment of fair value of value-in-kind goods and services received and the probability of achievement of organizational performance goals related to the employee completion incentive. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of less than one year. TO2015 does not have any bank borrowings.

Fund accounting and contribution revenue recognition

The financial statements have been prepared in accordance with the principles of fund accounting using the deferral method of accounting for contributions. The accounts are classified into the following two funds:

Venue development fund

TO2015's responsibility is to ensure that the Pan American and Parapan American venues ("Games Venues") are available and meet specified standards for use during the Games. TO2015 has entered into various agreements regarding the development and use of the required Games Venues. TO2015 has no ownership interest in these Games Venues.

The Venue Development Fund is established to record the receipt and use of resources that are designated for the development of the Games Venues.

Contributions related to venue development activities are restricted and are recognized in the period they are received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. These restricted contributions are recognized as a deferred contribution until the related expenditure is incurred, upon which, it is recognized as revenue in the period.

Operating fund

Revenues and expenses of TO2015 not related to venue development activity are recorded in the Operating Fund.

Unrestricted contributions are recognized as revenue in the period that they are received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions related to operating activities are recognized in the period that they are received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured. These restricted contributions are recognized as a deferred contribution until the related expenditure is incurred, upon which, it is recognized as revenue in the period.

Interest revenue is recognized in the period earned.

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Notes to the financial statements

(In thousands of dollars)

March 31, 2014

3. Summary of significant accounting policies (continued)

Direct sponsorship revenue

Direct sponsorship revenue is cash received by TO2015 under domestic sponsorship arrangements in exchange for value awarded to a sponsor (e.g. venue naming rights, brand partnering). Management has assumed that value provided in exchange for cash is awarded over the term of the contract. Therefore, revenue recognition of cash sponsorship is spread evenly over the term of the contract to match the value provided, when the amounts can be reasonably estimated and collection is reasonably assured.

Licensing and merchandising revenue

TO2015 enters into licensing arrangements for the supply and sale of licensed merchandise bearing Toronto 2015 and Pan American and Parapan American marks in exchange for royalties on merchandise sold. TO2015 recognizes licensing revenue upon sale of the merchandise.

Value in Kind ("VIK") goods and services

VIK goods and services are received by TO2015 under international or domestic sponsorship arrangements or are donated to TO2015 for no consideration. VIK is recognized in the financial statements when the goods and services are consumed by TO2015 in the normal course of operations and would otherwise have been purchased, and when a fair value can be reasonably estimated. VIK is recorded at fair market value.

Employee completion incentive plan

TO2015 established an Employee Completion Incentive Plan ("Completion Incentive") to support the retention of eligible employees through to the end of the term of their employment agreements and reward achievement of organizational performance results. The employee completion incentive payable is accrued over the period of service provided by the employee and is calculated using an actuarial cost method which includes management's best estimate of salary escalation, employee turnover and discount rates. Any actuarial gains and losses are amortized over the estimated average remaining service life of the employee group.

Financial instruments

The Organization's financial instruments are measured at fair value when issued or acquired. For financial instruments subsequently measured at cost or amortized cost, fair value is adjusted by the amount of the related financing fees and transaction costs. Transaction costs and financing fees relating to financial instruments that are measured subsequently at fair value are recognized in operations in the year in which they are incurred.

At each reporting date, the TO2015 measures its financial assets and liabilities at cost or amortized cost. The Organization uses the effective interest rate method to amortize any premiums, discounts, transaction fees and financing fees to the statement of activities. The financial instruments measured at amortized cost are cash and cash equivalents, contributions receivable, accounts payable and long-term liabilities. The Organization regularly assesses whether there is any objective evidence of impairment of its financial assets, and records any impairment required.

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Notes to the financial statements

(In thousands of dollars)

March 31, 2014

3. Summary of significant accounting policies (continued)

Foreign currency translations

At the transaction date, each asset, liability and amount reported in the statement of activities arising from a foreign currency transaction is translated into Canadian dollars by applying the exchange rate in effect at that date. Prior to settlement, monetary assets and liabilities and non-monetary financial instruments in the fair value category that are denominated in foreign currencies are translated into Canadian dollars on the balance sheet date at the exchange rate in effect at that date, and the resulting foreign exchange gains and losses are recorded in the statement of remeasurement gains and losses. In the period of settlement, the cumulative amount of remeasurement gains and losses related to the item are reversed in the statement of remeasurement gains and losses and an exchange gain or loss is recognized in the statement of activities.

4. Deferred revenue

Deferred revenue is comprised of unearned sponsorship and broadcast licensing revenue.

	Year ended March 31, <u>2014</u>	Year ended March 31, <u>2013</u>	April 1, <u>2012</u>
Balance, beginning of period	\$ 2,034	\$ 1,941	\$ 1,941
Received during the period	7,360	4,145	-
Less: amount recognized in revenue in period	<u>(5,850)</u>	<u>(4,052)</u>	<u>-</u>
Balance, end of period	\$ 3,544	\$ 2,034	\$ 1,941

5. Accrued employee completion incentive

TO2015 has accrued the portion of the Employee Completion Incentive Plan ("CIP") that is attributable to the retention of employment to the end of the Games.

	Year ended March 31, <u>2014</u>	Year ended March 31, <u>2013</u>	April 1, <u>2012</u>
Accrued benefit liability			
Operating Fund	\$ 1,731	1,531	-
Venue Fund	<u>166</u>	<u>-</u>	<u>-</u>
Accrued benefit liability, end of period	\$ 1,897	\$ 1,531	\$ -

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Notes to the financial statements

(In thousands of dollars)
March 31, 2014

5. Accrued employee completion incentive (continued)

The significant actuarial assumptions adopted in measuring TO2015's accrued benefit obligation for the current period are as follows:

	Year ended March 31, 2014	Year ended March 31, 2013	April 1, 2012
Discount rate	1.99%	1.99%	1.95%
Rate of compensation increase	0%	0%	0%

Other information about the CIP is as follows:

	Year ended March 31, 2014	Year ended March 31, 2013	April 1, 2012
Current period benefit cost	\$ 366	-	-
Benefits paid during the periods	-	-	-

TO2015 has not accrued the portion of the CIP that is based on achievement of organizational performance goals, as the probability of achievement was indeterminable as at March 31, 2014. The maximum potential liability of the organizational performance portion of the CIP is \$3.0M (2013 - \$3.8M). The amount will become payable if TO2015 meets defined organizational performance goals for the Games. This determination will depend on TO2015 results to March 31, 2016.

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Notes to the financial statements

(In thousands of dollars)

March 31, 2014

6. Sponsorship revenue

As of March 31, 2014, TO2015 has entered into definitive sponsorship agreements with twenty-five sponsors with a total contract value of \$127,952. Once binding term sheets are signed, it is expected that the parties will execute the definitive sponsorship agreement over the term of the contract.

During the year, \$6,106 in direct (cash) sponsorship was received. The sponsorship revenue recognized during the periods presented is as follows:

	<u>2014</u>	<u>2013</u>
Sponsorship revenue		
Direct (cash) sponsorship	\$ 6,106	\$ 4,518
VIK	<u>8,997</u>	<u>1,040</u>
Total sponsorship revenue	<u>\$ 15,103</u>	<u>\$ 5,558</u>

7. Credit facility

TO2015 has a line of credit facility in place with the Ontario Infrastructure Projects Corporation ("OIPC") to provide working capital and for general operating requirements. The maximum available credit under the facility is \$10 million. The term of the facility is for one year from March 17, 2012 with automatic annual renewal up to December 31, 2015. The rate of interest is variable as determined on a monthly basis by OIPC. The facility is unsecured except that the Minister of Finance may deduct from any monies owing to TO2015 any amounts that TO2015 fails to repay to OIPC.

The facility has not been drawn on during the fiscal year.

8. Accrued liability – Ministry of Citizenship and Immigration

The Accrued Liability – Ministry of Citizenship and Immigration of \$nil (2013 - \$nil, 2012 - \$393) is unsecured and non-interest bearing with no fixed terms of repayment.

9. Related party transactions

During the year, TO2015 recognized as revenue on the Statement of Activities and Changes in Net Assets \$53,683 (2013 - \$23,320) in contributions from the Province of Ontario provided to fund operational expenses to plan and execute the Games.

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Notes to the financial statements

(In thousands of dollars)
March 31, 2014

9. Related party transactions (continued)

During the year, TO2015 incurred \$5,289 (2013 - \$531) in security services provided by the Ontario Provincial Police, which organization is controlled by the Province of Ontario. These expenses are included in Essential Services on the Statement of Activities and Changes in Net Assets.

During the year, TO2015 disbursed \$119,460 (2013 - \$91,462) for construction costs related to the Venue Development to Infrastructure Ontario, who are the project managers for the Games large venues. Infrastructure Ontario is an entity controlled by the Province of Ontario. These costs are included in New builds and Renovations on the Statement of Activities and Changes in Net Assets.

10. Commitments and contingencies

PASO Commitment

TO2015 is committed to pay a remaining balance of US\$6,666 to PASO pursuant to the Host City Agreement ("Agreement"). Under the Agreement TO2015 is required to pay US\$20,000 in six equal installments on April 30 of each year in exchange for all rights with respect to the marketing and domestic broadcasting and ticket sales program related to the Games.

The Agreement outlines other requirements and payments that TO2015 will be responsible for including expense reimbursements for costs incurred by PASO officials for the Games and the portion of the ticket sale revenue from the Games.

Operating lease commitment

Future minimum annual obligations under the premises and equipment lease (excluding operating costs) at 25 Dockside Drive, Toronto to December 31, 2015 are estimated as follows:

2015	\$ 3,183
2016	\$ 2,024

Other operating and venue development commitments

TO2015 has entered into various contracts for goods and services related to the planning and staging of the Games and for the development of venue sites during the Games. As of March 31, 2014, TO2015 has outstanding commitments related to the Operating fund of approximately \$42,858, and \$218,426 related to the Venue Development Fund. These commitments will be disbursed at various times leading up to the Games.

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games

Notes to the financial statements

(In thousands of dollars)

March 31, 2014

11. Financial Instruments

TO2015 established a risk management framework to monitor, evaluate and manage the principal risks assumed with its financial instruments. The risks that arise from its financial instruments include credit, liquidity, market and foreign currency.

- Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for another party by failing to discharge an obligation. TO2015 is exposed to credit risk in the event of the non-performance by counterparties in connection with its contributions receivable from the Government of Canada, Province of Ontario, municipalities and sponsors. Given the sources of these receivables, it is management's opinion that it is not exposed to significant credit risk from these contributions receivable.

- Liquidity Risk

Liquidity risk is the risk that TO2015 may encounter difficulty in meeting its obligations associated with its financial liabilities as they become due. Management mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting analysis. As at March 31, 2014, all accounts payable balances were aged within six months due.

- Market and Foreign Currency Risk

Market risk is the risk that changes in market interest rates, foreign currency values or other changes in market prices will affect the value of the financial instruments or their related cash flows. TO2015 is exposed to foreign currency risk with respect to its commitment to pay PASO as the commitment is denominated in US dollars, and to Atos (a premier partner of the Games) as this commitment is denominated in Euros.

The impact of a change in value of these currencies is as follows:

<u>Currency</u>	<u>Fair Value</u>	<u>2.5% Decrease</u>	<u>1.0% Decrease</u>	<u>1.0% Increase</u>	<u>2.5% Increase</u>
US Dollar	\$ 4,111,260	\$ 4,008,478	\$ 4,070,147	\$ 4,152,372	\$ 4,214,041
Euro	\$ 1,619,509	\$ 1,579,021	\$ 1,603,314	\$ 1,635,704	\$ 1,659,997

12. Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

TO2015**Supplemental Schedule****Statement of Activities – Inception to date**

(In thousands of dollars)

For the Period Ending March 31, 2014

	Inception to date (March 31, 2014)		
	Operating	Venue	
	Fund	Development	Total
		Fund	
Revenue			
Contribution			
- Government of Canada	\$ -	\$ 205,943	\$ 205,943
- Province of Ontario	103,770	-	103,770
- Municipalities	-	180,583	180,583
Sponsorship revenue	22,739	-	22,739
Licensing and merchandising revenue	29	-	29
Realized gains on foreign exchange	32	-	32
Interest income	<u>318</u>	<u>383</u>	<u>701</u>
Total revenues	<u>126,888</u>	<u>386,909</u>	<u>513,797</u>
Expenses			
New builds	-	347,277	347,277
Renovations	-	37,225	37,225
Other projects	-	2,407	2,407
Marketing and ceremonies	37,023	-	37,023
Sport and venue management overlay	10,063	-	10,063
Games services	8,402	-	8,402
Corporate	34,585	-	34,585
Technology	12,696	-	12,696
Administrative services	14,563	-	14,563
Essential services	<u>9,556</u>	<u>-</u>	<u>9,556</u>
Total expenses	<u>126,888</u>	<u>386,909</u>	<u>513,797</u>
Excess of revenue over expenses	\$ -	\$ -	\$ -



Toronto Waterfront Revitalization Corporation

Management's Responsibility for the Financial Statements

June 25, 2014

The integrity and objectivity of the accompanying financial statements of the Toronto Waterfront Revitalization Corporation ("the Corporation") is the responsibility of management. These financial statements have been prepared in accordance with Canadian public sector accounting standards established by the Chartered Professional Accountants of Canada (CPA Canada). Significant accounting policies of the Corporation are described in Note 2 to financial statements.

Management is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded, and reliable financial information is available on a timely basis for the preparation of the financial statements.

Management meets with the external auditors, the Finance, Audit and Risk Management Committee and the Board of Directors to review the financial statements and discuss any significant financial reporting or internal control matters prior to approval of the financial statements.

The financial statements have been audited by BDO Canada LLP, the independent external auditors appointed by the Board of Directors. The accompanying Independent Auditor's Report outlines Management's responsibilities, the auditor's responsibilities, the scope of its examination and its opinion on the Corporation's financial statements.



President and CEO



Chief Financial Officer



Tel: 905 270-7700
Fax: 905 270-7915
Toll-free: 866 248 6660
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BDO Canada LLP
1 City Centre Drive, Suite 1700
Mississauga ON L5B 1M2 Canada

Independent Auditor's Report

To the Board of Directors of Toronto Waterfront Revitalization Corporation

We have audited the accompanying financial statements of Toronto Waterfront Revitalization Corporation, which comprise the statement of financial position as at March 31, 2014, and the statements of financial activities, remeasurement gains and losses, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toronto Waterfront Revitalization Corporation as at March 31, 2014, and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

BDO CANADA LLP

Chartered Accountants, Licensed Public Accountants
Mississauga, Ontario
June 25, 2014

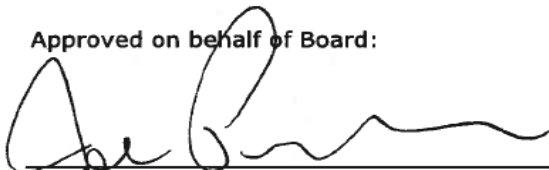
Toronto Waterfront Revitalization Corporation

Statement of financial position as at March 31, 2014

	March 31, 2014	March 31, 2013
	\$	\$
Assets		
Current assets		
Cash	8,673,954	6,603,334
Short-term investments	63,817,965	33,018,279
Contributions receivable (Note 3)	-	15,920,635
HST receivable	889,461	586,723
Deposits, prepaid expenses, rent receivable and other assets (Note 4)	10,024,704	8,490,189
	83,406,084	64,619,160
Restricted cash (Note 5)	7,385,064	8,987,394
Assets under development (Note 6)	297,723,741	236,976,694
Capital assets (Note 7)	112,652,795	114,557,753
Other assets (Note 8)	389,673	343,455
	501,557,357	425,484,456
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	17,911,692	26,529,606
Deferred contributions and grants (Note 10)	74,061,090	50,525,363
Other liabilities and settlements (Note 11)	257,574	523,320
	92,230,356	77,578,289
Other liabilities and settlements (Note 11)	2,527,204	3,912,082
	94,757,560	81,490,371
Net assets (Note 12)	406,799,797	343,994,085
	501,557,357	425,484,456

The accompanying notes are an integral part of the financial statements.

Approved on behalf of Board:

 Director

 Director

Toronto Waterfront Revitalization Corporation

Statement of financial activities

year ended March 31, 2014

	March 31, 2014	March 31, 2013
	\$	\$
Revenue		
Province of Ontario	58,911,600	60,068,101
City of Toronto	57,893,132	36,093,140
Government of Canada	-	10,557,005
Non-government organizations	3,701,380	1,498,803
	120,506,112	108,217,049
Less: Government contributions for land and/or assets under development	(60,747,047)	(58,542,300)
Increase in deferred contributions for continuing operations related to future periods	(23,535,727)	(470,228)
	36,223,338	49,204,521
Expenses (Note 13)		
Waterfront -Wide Initiatives	29,022,637	35,361,555
Port Lands	2,740,076	4,110,688
East Bayfront	2,060,532	3,915,687
Central Waterfront	992,733	1,802,161
West Don Lands	1,597,764	3,197,956
	36,413,742	48,388,047
Excess of (expenses over revenue)/revenue over expenses before other operating items	(190,404)	816,474
Net other operating income (Note 16)	2,210,374	1,303,029
Excess of revenue over expenses	2,019,970	2,119,503

The accompanying notes are an integral part of the financial statements.

Toronto Waterfront Revitalization Corporation

Statement of remeasurement gains and losses

year ended March 31, 2014

	March 31, 2014	March 31, 2013
	\$	\$
Accumulated remeasurement gains, beginning of the year	85,955	-
Unrealized gains attributable to:		
Short term investments	38,695	85,955
Net remeasurement gains for the year	38,695	85,955
Accumulated remeasurement gains, end of year	124,650	85,955

Statement of changes in net assets

year ended March 31, 2014

	March 31, 2014	March 31, 2013
	\$	\$
Net assets, beginning of the year	343,994,085	287,099,458
Add: Excess of revenue over expenses	2,019,970	2,119,503
Add: Unrealized remeasurement gains	38,695	85,955
Less: Transfer of completed assets		
under development to governments	-	(3,853,131)
Add: Government contributions for assets under development	60,747,047	58,542,300
Net assets, end of year	406,799,797	343,994,085

The accompanying notes are an integral part of the financial statements.

Toronto Waterfront Revitalization Corporation

Statement of cash flows

year ended March 31, 2014

	March 31, 2014 \$	March 31, 2013 \$
Cash flows from operating activities		
Cash received from:		
Government contributions for operating activities	71,712,073	32,391,395
Non government contributions for operating activities	2,174,403	3,573,182
Investment income received for operating activities	239,550	209,464
Sales tax rebates	6,762,332	7,738,503
	80,888,358	43,912,544
Cash paid for:		
Planning and implementation expenses	(29,146,773)	(22,440,073)
Project support expenses	(7,716,197)	(7,498,313)
Transfer payments	(29,618,341)	(35,756,061)
	(66,481,311)	(65,694,447)
Net cash paid for operating activities	14,407,047	(21,781,903)
Cash flows from capital activities		
Cash received from government contributions for assets under development	60,747,047	58,542,300
Cash used to acquire capital assets	(365,404)	(250,593)
Cash used to acquire assets under development	(42,287,332)	(53,503,370)
Net cash received from capital activities	18,094,311	4,788,337
Cash flows from investing activities		
Cash received from short term investments redemption	12,569,292	30,694,629
Cash used to purchase additional security investments	(43,000,030)	(12,282,881)
Net cash received from (paid for) investment activities	(30,430,738)	18,411,748
Increase in cash	2,070,620	1,418,182
Cash, beginning of the year	6,603,334	5,185,152
Cash, end of the year	8,673,954	6,603,334

The accompanying notes are an integral part of the financial statements.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2014

1. Description of Corporation

The Toronto Waterfront Revitalization Corporation (the "Corporation" or "TWRC") was initially incorporated on November 1, 2001 under the Ontario Business Corporations Act with the Province of Ontario being its sole shareholder.

Pursuant to the Toronto Waterfront Revitalization Corporation Act, 2002 (the "Act"), the Corporation was continued as a corporation without share capital on May 15, 2003. The Corporation is deemed not to be a Crown Agency within the meaning of the Crown Agency Act.

Under the Act, the Corporation's objects are to:

- (a) implement a plan that enhances the economic, social and cultural value of the land in the designated waterfront area and create an accessible and active waterfront for living, working and recreation and to do so in a fiscally and environmentally responsible manner;
- (b) ensure that ongoing development in the designated waterfront area can continue in a financially self-sustaining manner;
- (c) promote and encourage involvement of the private sector in the development of the designated waterfront area;
- (d) encourage public input into the development of the designated waterfront area; and
- (e) engage in such other activities as may be prescribed by regulation.

2. Significant accounting policies

(a) *Basis of presentation*

These financial statements have been prepared with Canadian public sector accounting standards for not-for-profit organizations including the 4200 series of standards contained in the Chartered Professional Accountants (CPA) handbook.

(b) *Revenue recognition*

The Corporation follows the deferral method of accounting for restricted contributions. Under this method, restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions for which the related restrictions remain unfulfilled are accumulated as deferred contributions.

Contributions used for the purchase of amortized capital assets are deferred and amortized into revenue at a rate corresponding with the amortization rate for the related capital assets. Contributions for the purchase of non-amortized capital assets such as land as well as assets under development which will be transferred to government(s) upon completion are recognized as a direct contribution to net assets.

Under the Contribution Agreements, contributions from the Governments can only be applied towards payments of eligible costs in respect of project activities, as defined in the Contribution Agreements. Unrestricted contributions such as other operating items are recognized as revenue in the current period.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2014

2. Significant accounting policies (con't)

(c) *Financial instruments*

Financial instruments are recorded at cost when acquired, except for contributions that are recorded at fair value. In subsequent periods, investments traded in an active market are reported at fair value, with any unrealized gains and losses reported in the statement of remeasurement gains and losses. All other financial instruments are recorded at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each balance sheet date and charged to the financial instrument for those measured at amortized cost.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Short-term investments consist of guaranteed investment certificates (GICs) and short-term cashable bonds with maturities ranging from April 2014 to November 2015. The GICs are classified as Level 1 in the fair value hierarchy whereby their fair value is based on quoted prices in active markets for identical assets. The cashable bonds are classified as level 2 in the fair value hierarchy whereby their fair value is based on inputs other than quoted prices included in level 1 that are observable for the asset either directly or indirectly. There have been no transfers from Level 1, Level 2 or Level 3.

(d) *Transfer payments and grants*

The Corporation has entered into agreements with third parties who are responsible for managing various projects on Toronto's Waterfront. Expenditures related to these projects are recorded in the statement of financial activities as transfer payments and grants. Under the terms of the agreements, the Corporation does not assume ownership or ongoing operational responsibility during development or upon project completion.

(e) *Allocation of general support expenses*

The Corporation incurs a number of general support expenses that are common to the administration of the organization and each of its projects. General support expenses are incurred to support the functional areas of construction/implementation, planning, design and approvals, and project management. The expenses are allocated using a burden rate based on general support expenses as a proportion of direct labour costs.

(f) *Taxes*

The Corporation is exempt from income taxes pursuant to paragraph 149(1) (d.3) of the Income Tax Act (Canada) and is eligible to claim a rebate of approximately 86.5% for HST paid on property and services acquired pursuant to section 123(1)(b) of the Excise Tax Act.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2014

2. Significant accounting policies (con't)

(g) *Assets under development*

Assets under development represent those investments in assets which the Corporation has been directed to develop under an executed agreement and the Corporation has actual or beneficial ownership during the development stage. Land under this category represents all costs associated with getting a parcel of land site ready for development, including costs associated with contracting with a developer, rezoning, and soil management and treatment.

Upon substantial completion these assets are either transferred to a respective government who assumes ownership and ongoing operational responsibility, transferred to capital assets for those assets the Corporation continues to have actual or beneficial ownership over, or sold to a third party. These assets transferred to a respective government are considered a related party transaction and the difference between cost and proceeds is recorded directly to net assets. Any gain or loss on assets sold to a third party is recorded through the statement of financial activities.

Assets under development are recognized at cost, are not amortized and include both direct project costs as well as overhead costs directly attributable to the asset under development.

(h) *Capital assets*

Capital assets are recorded at cost less accumulated amortization. With the exception of land which is not amortized, capital assets less residual value are amortized on a straight-line basis over their estimated useful lives as follows:

Parking facility	10 years
Leasehold improvements	5 years
Furniture and fixtures	5 years
Computer hardware and software	3 years
Office equipment	5 years

The cost incurred to enhance the service potential of a capital asset, including land, is a betterment and capitalized to the asset. Repairs and maintenance costs are charged to expense.

(i) *Executive pension plan*

The Corporation has accrued its obligations under the executive pension plan (the "Plan") and the related costs, net of plan assets up to December 31, 2013. The Corporation has adopted the following policies:

- The cost of pension benefits earned is actuarially determined using the projected unit credit method prorated on service and management's best estimate of expected plan performance, salary escalation and retirement age of the executive.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

The Corporation is in the process of transferring the Plan to a third party employer effective January 1, 2014 in order to obsolesce the Corporation of any future liability.

(j) *Use of estimates*

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. The items subject to the most significant estimates are contributions recoverable, the amortization of capital assets, accrued liabilities, deferred revenue and accrued benefit liability.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2014

3. Contributions receivable

	March 31, 2014	March 31, 2013
	\$	\$
Province of Ontario	-	15,920,635
	-	15,920,635

4. Deposits, prepaid expenses, rent receivable and other assets

	March 31, 2014	March 31, 2013
	\$	\$
Construction deposits	5,851,903	6,456,997
Developer receivables, rent and other	3,731,934	1,727,895
Prepaid expenses	408,400	272,830
Current portion of prepaid expenses and rent receivables (Note 8)	32,467	32,467
	10,024,704	8,490,189

The Corporation has provided the City of Toronto (the "City") and Toronto Hydro with certain construction deposits to guarantee satisfactory performance, completion of work and related obligations required for the construction of municipal and hydro infrastructure by the Corporation. The construction deposits will be released to Waterfront Toronto at the expiration of certain performance and guarantee periods. The construction deposits paid to the City of \$2,181,199 (2013 - \$2,181,199) are non-interest bearing; and the construction deposits outstanding from Toronto Hydro of \$3,670,179 (2013 - \$4,275,273) will be returned to TWRC including interest at the Prime Business Rate set by the Bank of Canada less two percent.

5. Restricted cash

The Corporation has \$7,385,064 (2013 - \$8,987,394) in cash which is subject to restrictions that prevent its use for current purposes. Of this cash balance \$4,728,290 forms part of a security fund set up with the City for infrastructure works being completed by the Corporation in West Don Lands. Under the terms of the agreement, TWRC cannot withdraw funds from the security fund without the authorization of the City and the City can only draw on the security fund subject to certain conditions and providing sufficient and appropriate notice to TWRC. The remaining balance of \$2,656,774 pertains to funds in escrow required to satisfy Waterfront Toronto's future obligations to third party developers.

6. Assets under development

The following table details assets under development by category:

	March 31, 2014	March 31, 2013
	\$	\$
Roads, public realm, utilities	239,234,381	188,010,824
Parkland	36,378,635	33,809,427
Land under development	22,110,726	15,156,443
	297,723,741	236,976,694

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2014

6. Assets under development (con't)

The following table details assets under development by precinct:

	East Bayfront	West Don Lands	Central Waterfront	Total
	\$	\$	\$	\$
Opening balance, March 31, 2013	101,144,001	95,912,180	39,920,513	236,976,694
Capital additions	13,663,507	5,261,766	33,411,567	52,336,840
Direct project management - Note 13	1,705,168	528,860	951,285	3,185,313
General and support expenses - Note 13	2,783,423	863,284	1,578,187	5,224,894
Closing balance, March 31, 2014	119,296,099	102,566,090	75,861,552	297,723,741

7. Capital assets

	March 31, 2014		March 31, 2013	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	\$	\$	\$	\$
Land	92,588,484	-	92,588,484	-
Parking facility	21,200,570	1,972,319	21,169,329	726,644
Computer hardware and software	2,759,757	2,263,850	2,538,322	1,964,199
Direct energy assets	-	-	6,971,690	6,513,071
Leasehold improvements	1,176,055	894,574	1,176,055	780,211
Furniture and fixtures	659,867	647,008	655,884	632,429
Office equipment	308,580	262,767	308,580	234,037
	118,693,313	6,040,518	125,408,344	10,850,591
Cost less accumulated amortization		112,652,795		114,557,753

The Corporation owns land containing environmental contamination. The costs associated with the Corporation's environmental remediation, which depends on the ultimate use of the lands, will be recognized in the period when an obligation arises.

The Corporation owns buildings on a number of its properties. As none of the buildings are intended for use other than on a temporary rental basis and all will ultimately be demolished, they have been recorded at a carrying value of \$Nil (2013 - \$Nil).

During the year, the Corporation disposed of its direct energy assets with a net book value of \$458,619 for proceeds of \$106,900. The resulting loss on disposal was recorded in the statement of financial activities.

8. Other assets

	March 31, 2014	March 31, 2013
	\$	\$
Prepaid expenses	360,800	335,359
Rent receivable	61,340	40,563
	422,140	375,922
Less: Current portion (Note 4)	32,467	32,467
	389,673	343,455

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2014

9. Accounts payable and accrued liabilities

	March 31, 2014	March 31, 2013
	\$	\$
Accrued liabilities	13,016,248	21,857,574
Accounts payable	707,688	1,417,485
Holdbacks payable	4,187,756	3,254,547
	17,911,692	26,529,606

10. Deferred contributions and grants

Deferred contributions and grants represent project specific contributions from Governments which have not been applied to eligible costs at March 31, 2014, as well as contributions received for the acquisition of capital assets which have yet to be amortized.

	March 31, 2014	March 31, 2013
	\$	\$
Expenses of future periods		
Balance, beginning of year	38,306,733	37,323,916
Add: additional contribution received/receivable	59,961,024	48,824,873
Less: amounts recognized as revenue	(34,520,338)	(47,842,056)
Balance, end of year	63,747,419	38,306,733
Capital contributions		
Balance, beginning of year	12,218,630	12,731,219
Add: contributions for acquisition of capital assets and assets under development	60,545,087	59,392,176
Less: direct contribution to net assets	(60,747,047)	(58,542,300)
Less: amount amortized to revenue	(1,702,999)	(1,362,465)
Balance, end of year	10,313,671	12,218,630
	74,061,090	50,525,363

11. Other liabilities and settlements

Other liabilities and settlements at March 31, 2014 total \$2,784,778 (2013 - \$4,435,402) largely represent security and developer deposits.

	March 31, 2014	March 31, 2013
	\$	\$
Deposits received	2,567,875	2,978,249
Business relocation future obligations	-	1,281,925
Accrued benefit liability	216,903	175,228
Total other liabilities	2,784,778	4,435,402
Less: current portion	257,574	523,320
	2,527,204	3,912,082

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2014

12. Net assets

a) Net assets recorded on the Statement of Financial Position are comprised of the following:

	March 31, 2014	March 31, 2013
	\$	\$
Invested in capital assets (net of deferred capital contributions)	102,339,124	102,339,124
Invested in assets under development	297,723,741	236,976,694
Unrestricted surplus (Note 12b)	6,612,282	4,592,312
Accumulated re-measurement gains	124,650	85,955
	406,799,797	343,994,085

b) Unrestricted surplus

	March 31, 2014	March 31, 2013
	\$	\$
Unrestricted surplus, opening balance	4,592,312	2,472,809
Excess of revenue over expenses	2,019,970	2,119,503
Unrestricted surplus, closing balance	6,612,282	4,592,312

Toronto Waterfront Revitalization Corporation

Notes to the financial statements
March 31, 2014

13. Expenses by Precinct and Function

	Waterfront Wide- Initiatives	Port Lands	East Bayfront	Central Waterfront	West Don Lands	Total Mar 31, 2014
	\$	\$	\$	\$	\$	\$
<i>Direct project costs:</i>						
Transfer payments and grants	25,035,943	-	397,932	-	(558,561)	24,875,314
Project planning and implementation costs	2,821,806	1,430,177	-	435,312	1,845,733	6,533,028
Amortization	-	-	1,245,675	-	-	1,245,675
Project management - salaries, fees and benefits	436,617	490,969	1,838,658	1,157,012	638,210	4,561,466
less Project management - salaries, fees and benefits related to assets under development (Note 6)	-	-	(1,705,168)	(951,285)	(528,860)	(3,185,313)
	28,294,366	1,921,146	1,777,097	641,039	1,396,522	34,030,170
<i>General & support expenses:</i>						
Salaries, fees and benefits	456,938	513,820	1,924,233	1,210,862	667,914	4,773,767
General and office administration	154,002	173,173	648,524	408,097	225,107	1,608,902
Communications, marketing and government relations	64,026	71,996	269,623	169,666	93,588	668,900
Information Technology	21,060	23,681	88,686	55,807	30,783	220,018
Amortization	32,246	36,260	135,791	85,449	47,134	336,879
	728,271	818,930	3,066,858	1,929,881	1,064,526	7,608,466
less general & support costs allocated to assets under development (Note 6)	-	-	(2,783,423)	(1,578,187)	(863,284)	(5,224,894)
	29,022,637	2,740,076	2,060,532	992,733	1,597,764	36,413,742

General and support expenses for the year ending March 31, 2014 have been allocated to precincts using an overhead burden rate of 1.67 (2013 - 1.81) for every \$1 of direct labour (project management - salaries and benefits). Total salaries, fees and benefits for the Corporation were \$9,335,233 for the year ending March 31, 2014 (2013 - \$9,108,938) comprising direct project management salaries, fees and benefits of \$4,561,466 (2013 - \$4,141,253) and general support salaries, fees and benefits of \$4,773,767 (2013 - \$4,967,685).

Waterfront-wide initiatives include Union Station Second Platform, Mimico Park and Port Union Waterfront Park. Port Lands include Tommy Thompson Park and Lower Don Lands.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2014

13. Expenses by Precinct and Function (cont.)

	Waterfront Wide- Initiatives	Port Lands	East Bayfront	Central Waterfront	West Don Lands	Total Mar 31, 2013
	\$	\$	\$	\$	\$	\$
<i>Direct project costs:</i>						
Transfer payments and grants	34,492,698	-	632,647	-	869,962	35,995,307
Project planning and implementation costs	-	2,268,110	2,466,174	1,725,301	1,314,165	7,773,750
Amortization	-	-	726,644	-	-	726,644
Project management - salaries, fees and benefits	308,532	654,302	1,104,766	1,080,021	993,632	4,141,253
less Project management - salaries, fees and benefits related assets under development	-	-	(1,072,846)	(1,052,728)	(633,620)	(2,759,194)
	34,801,230	2,922,412	3,857,385	1,752,594	2,544,139	45,877,760
<i>General & support expenses:</i>						
Salaries, fees and benefits	370,103	784,875	1,325,234	1,295,551	1,191,922	4,967,685
General and office administration	104,348	221,290	373,641	365,272	336,055	1,400,606
Communications, marketing and government relations	41,488	87,983	148,557	145,229	133,613	556,870
Information technology	10,644	22,572	38,112	37,259	34,278	142,865
Amortization	33,742	71,556	120,820	118,114	108,666	452,898
	560,325	1,188,276	2,006,364	1,961,425	1,804,534	7,520,924
less general & support costs allocated to assets under development	-	-	(1,948,062)	(1,911,858)	(1,150,717)	(5,010,637)
	35,361,555	4,110,688	3,915,687	1,802,161	3,197,956	48,388,047

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2014

14. Commitments

The Corporation is committed to payments under operating leases for equipment and office space through 2017 in the amount of \$1,145,450. Annual payments are as follows:

2015	673,899
2016	377,988
2017	93,563
	\$ 1,145,450

In addition, the Corporation has other commitments of \$122,289,055. These commitments comprise contracts directly entered into by the Corporation, and/or Delivery Agreements with Eligible Recipients who are responsible for managing various projects on Toronto's waterfront.

15. Risk disclosures

Credit risk

Credit risk arises from cash and short term investments held with banks and credit exposure to governments and other debtors, including accounts receivable. The maximum exposure to credit risk is equal to the carrying value (net of allowances) of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Corporation assesses the credit quality of funding partners and debtors, taking into account their financial position, past experience and other factors.

Liquidity risk

Liquidity risk is the risk the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's objective in managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its commitments when due, without incurring unacceptable losses or risking damage to the Corporation's reputation. The Corporation manages exposure to liquidity risk by closely monitoring supplier and other liabilities; by focusing on debtor collection; and by requesting government funding in advance.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the fair value of recognized assets and liabilities or future cash flows of the Corporation's operations. The Corporation is exposed to changes in interest rates, which may impact interest revenue on short term investments. As at March 31, 2014, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, excess revenues over expenses would have increased or decreased, respectively, by \$394,069 (2013 - \$341,000).

16. Net other operating income

	March 31, 2014	March 31, 2013
	\$	\$
Rental, parking and other income	4,043,461	3,433,903
Less: operating expenses	(3,408,587)	(3,274,278)
	634,874	159,625
Interest and other income	1,575,635	1,133,352
Realized investment gains (losses)	(135)	10,052
Net other operating income	2,210,374	1,303,029

17. Compensation of Senior Executive

As of January 1, 2014 the President and CEO's employment contract was replaced with a Consulting Agreement, the rate of which is based on historical compensation and is not anticipated to result in any increased costs to the Corporation. The fees paid and/or accrued under this Consulting Agreement for the period January 1, 2014 to March 31, 2014 were \$104,864.

Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2014

18. Comparatives

Certain comparative amounts have been reclassified to conform with the current year's method of presentation.

19. Contingent liabilities

- (a) Under the terms and conditions of the Contribution Agreements, the Corporation provides an indemnity to the City, Province of Ontario and Government of Canada and their respective officers, employees and agents, from and against all claims, losses, damages, costs, expenses, actions and other proceedings related to any injury to or death of a person or damage to or loss of property, infringement of rights or any other loss or damages whatsoever arising directly or indirectly from any willful or negligent act, omission or delay on the part of the Corporation, the Corporation's directors, officers, employees, contractors, agents or Third Party Contractors, in carrying out a project or as a result of the project, except to the extent that the injury, loss or damage has been caused by the City, Province of Ontario and/or Government of Canada or their respective officers, employees or agents.

The Corporation requires all Eligible Recipients to indemnify the Corporation from and against liability on the same basis outlined above.

The Corporation requires most third party contractors to indemnify each level of government and the Corporation, its officers, employees and agents against all claims, liabilities and demands with respect to any injury to persons (including death), damage to, loss or destruction of property or infringement of rights caused by or arising directly from:

- (i) the breach of any term or condition of the contract by the third party contractor or its officers, employees or agents; or
 - (ii) any omission or any willful or negligent act of the third party contractor or its officers, employees or agents in relation to the applicable project.
- (b) Under the Delivery Agreement with each Eligible Recipient respectively, the Corporation provides an indemnity to the Eligible Recipient and its respective officers, employees and agents, from and against any claims with respect to direct loss arising from:
- (i) any breach by the Corporation of the Delivery Agreement or documents or certificates given pursuant to the Agreement, or
 - (ii) any negligent or willful acts or omissions of the Corporation, its officers, directors, employees or agents, in relation to the project.

Management attempts to limit the Corporation's exposure under these indemnifications through the purchase of directors and officers insurance, the allocation of risk to Eligible Recipients and contractors (outlined above) and through enforcing the Corporation's and Eligible Recipients' policies and procedures, as well as intense oversight where appropriate.

- (c) The Corporation has entered into a number of Development Agreements with third party builders with respect to lands located in the West Don Lands and East Bayfront. Under these agreements, the Corporation has provided the builders certain milestone representations based on specific Corporation development obligations. The representations primarily relate to schedule delays. The maximum potential future liability related to these representations is \$7.5 million under one development agreement with one builder and although under the other development agreements the amounts are not determinable, they are limited to the amount up to the respective builder's carrying costs and/or out of pocket expenses incurred on the development. No amount for these representations has been accrued in these financial statements. Management attempts to limit the Corporation's potential exposure under these guarantees through appropriate schedule, cost and scope management practices.
- (d) The Corporation has a municipal access agreement with the City of Toronto for the ongoing maintenance and potential removal of district energy pipes in West Don Lands. Management estimates the maximum potential liability to be \$1,600,000. These costs are currently unfunded.

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