Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA)

Annual Report 2004

Corporate Overview

The Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) was created to expand the pool of capital available to municipalities for priority local infrastructure projects and commenced operations on April 22, 2003. Pursuant to the *OMEIFA Act, 2002,* the Authority is a non-share capital corporation and is an agency of the Province of Ontario, reporting to the Minister of Finance.

In its first year of operations, OMEIFA entered into financing arrangements with 88 Ontario municipalities to provide up to $1 billion in loans for infrastructure investments. These municipalities represent approximately 20 per cent of the total number of municipalities in the province and have a population of six million residents.

OMEIFA's municipal loan program is funded from the proceeds of the sale of Ontario Opportunity Bonds. These bonds are a direct obligation of the Authority, and are not guaranteed by the Province of Ontario. Sales of the bonds are targeted at retail investors in communities across the province.

Corporate Governance

OMEIFA is governed by a board of directors. The *OMEIFA Act, 2002*, provides for the board to be composed of up to 16 members. Currently, there are eight members (all from the Ontario Public Service), with the Deputy Minister of Finance serving as the chair of the board. Line ministries (Environment and Transportation) and central ministries (Finance and Public Infrastructure Renewal) that support the Authority in delivering its municipal loan program are represented on the board. Board members are appointed for a term of up to three years.

Board of Directors

Name	Position on Board	Position in Ontario Public Service
Colin Andersen	Chair	Deputy Minister of Finance
Gadi Mayman	Vice-Chair	CEO, Ontario Financing Authority
Bill Ralph	Director	CEO, Ontario Strategic Infrastructure Financing Authority
Joan Andrew	Director	ADM, Environmental Sciences and Standards Division, Ministry of Environment
Brad Graham	Director	ADM, Smart Growth Secretariat, Ministry of Public Infrastructure Renewal
Bruce McCuaig	Director	ADM, Policy, Planning and Standards Division, Ministry of Transportation
Nancy Naylor	Director	ADM, Provincial Local Finance Secretariat, Ministry of Finance
Gabriel F. Sékaly	Director, Chair of Audit Committee	Associate Deputy Minister, Ministry of Finance

Audit Committee

Gabriel Sékaly (Chair)
Brad Graham (Vice-Chair)
Joan Andrew

The purpose of the audit committee is to assist the board of directors of the Authority in fulfilling its oversight responsibilities relating to the Authority's risk exposures arising from its financial activities; the system of internal controls including the process for monitoring compliance with laws, regulatory requirements, government directives, and ethics programs; financial reporting processes including the integrity of the Authority's financial statements; and the audit process.

In discharging its oversight role, the committee is empowered to (i) investigate any matter within its area of responsibility that is brought to its attention with full access to all books, records, facilities, and personnel of the Authority, and (ii) the power to retain outside legal, accounting, or other experts for this purpose.

Role of the Minister of Finance

The role of the Minister includes, but is not limited to, recommending to Management Board Secretariat (MBS) the establishment, elimination, or consolidation of the Authority and any change to its mandate that will require a corresponding change to the *OMEIFA Act, 2002;* reporting and responding to the legislative assembly on the affairs of the Authority; and informing the chair of the board of directors of the government's priorities and broad policy directions for the Authority.

Statement from the Chair
June 17, 2004

As chair of the board of directors, I am pleased to present OMEIFA's 2004 Annual Report. This report outlines the Authority's objectives and responsibilities, operational highlights, and audited financial statements for the year ended March 31, 2004.

Modern and efficient public infrastructure plays a key role in delivering important government services and is essential to a strong economy. Through pooled financing, the Authority makes it easier and more cost-efficient for Ontario municipalities to invest in much-needed capital infrastructure such as clean water systems, sewage treatment plants, transit networks, municipal roads and bridges, and waste-management facilities.

OMEIFA's loan program is funded through the sale of Ontario Opportunity Bonds. In 2003–04, the Authority approved up to $1 billion in loans for 88 municipalities from every region of Ontario. Millions of Ontario residents will benefit from the improved public infrastructure financed through the Authority's loans.

The upcoming year promises to be even better. As announced in the 2004 Ontario Budget on May 18, 2004, the Ontario Strategic Infrastructure Financing Authority (OSIFA) will replace OMEIFA. The new Authority will develop and implement a broader infrastructure renewal loan program to provide financing for municipal, health, education, and housing infrastructure priorities. OSIFA will sell Infrastructure Renewal Bonds to both individual and institutional investors, creating a pool of capital for the infrastructure renewal loan program.

The government is moving quickly to renew the infrastructure that is the foundation of Ontario's high-quality public services. The creation of OSIFA is a key element of the government's commitment to meet this need and to strengthen Ontario communities and its economy.

Colin Andersen
Chair

Statement from the Chief Executive Officer
June 17, 2004

Pooled financing, provided through OMEIFA, has enhanced the ability of Ontario municipalities to invest in the public infrastructure that is so critical to building strong and prosperous communities.

The Authority's 2003–04 municipal loan program consists of loan agreements or commitments for up to $1 billion for public infrastructure projects. The loans, used to finance clean water infrastructure, sewage-treatment facilities, waste-management infrastructure, municipal roads and bridges, and public transit, will benefit nearly six million Ontario residents in 88 communities across the province.

As of March 31, 2004, loan agreements had been provided to 72 of the 88 approved municipal applicants. Twenty-six of those agreements were finalized and staff are working to finalize financing agreements with the remaining municipal applicants approved for the 2003–04 loan program. The total amount of advances (construction loans) provided to municipalities as at March 31, 2004 was almost $134 million.

Funding for this year's loan program came from the sale of Ontario Opportunity Bonds. The five-year, fixed-rate bonds were available to Ontario residents and were sold in denominations from $100 to $500,000. Sales totalled $323 million. The Bonds were rated AA by DBRS, Aa by Moody's, and AA+ by S & P.

As announced in the 2004 Ontario Budget, the provincial government has created OSIFA to replace OMEIFA. OSIFA will provide financing to a broader range of Ontario's public-sector institutions in order to strengthen the foundation of Ontario's communities and economy. All of OMEIFA's assets and liabilities, including the commitments made under the 2003–04 loan program, will be assumed by OSIFA. OSIFA will continue to honour the commitments made under Series 2003-1 of the Ontario Opportunity Bonds.

I wish to express my sincere appreciation to the staff at the Authority. From outreach activities, to developing a strong working relationship with our municipal clients, to identifying risks associated with the loan program, the staff have demonstrated great commitment. Their efforts and diligence in providing outstanding service and support over the past year have allowed for the successful implementation of our mandate, and ensured the future of this organization in supporting Ontario's communities.

Bill Ralph
Chief Executive Officer

OMEIFA Organization

The Authority is functionally organized in two divisions: Community Relations and Communications, and Community Finance and Financial Operations. Each division reports to a Vice-President under the overall leadership of the Chief Executive Officer.

The **Community Relations and Communications Division** is responsible for marketing and managing the Authority's loan and borrowing programs. The division also liaises with stakeholders including related government ministries, Ontario municipalities, investors, brokers, and credit-rating agencies.

The **Community Finance and Financial Operations Division** is responsible for managing day-to-day financial and accounting activities, overseeing the Authority's credit policy and risk management practices, resolving legal issues, and maintaining information technology systems.

The Authority has entered into a fee-for-service contract with the Ontario Financing Authority (OFA) to support both divisions in their operations.

OFA provides services related to capital markets, settlements, information technology, risk management, banking services, legal services, investment documentation, accounting, and cash management. This leveraging of OFA expertise and resources has allowed the Authority to develop a cost-effective and efficient operating structure to deliver its mandate.

Management's Discussion and Analysis

2003–04 Highlights

- 88 Ontario municipalities were approved for up to $1 billion in loans over three years to invest in critical local infrastructure.
- The Authority sold $323 million of Ontario Opportunity Bonds to finance the loan program.
- Ontario Opportunity Bonds were rated AA by DBRS, Aa by Moody's, and AA+ by S & P.

The following provides management's analysis of the financial position and results of operations of the Authority for the year ended March 31, 2004.

Performance Objective

OMEIFA's objective was to provide loans to Ontario municipalities to promote priority infrastructure development and substantially reduce the associated infrastructure financing costs. In its first year of operations, the Authority entered into financing arrangements with or made commitments to 88 Ontario municipalities representing six million residents. A total of up to $1 billion of low-interest loans will be available to these municipalities over a three-year period.

Operational Performance

The 2003–04 loan program supports clean water, sewage treatment, waste management, municipal roads and bridges, and public transit projects. The Authority's ability to defray the costs of entry into the capital markets for municipalities (especially smaller rural and northern communities) played a vital role in spurring investment in critical public infrastructure.

OMEIFA's net loss from operations for the year ended March 31, 2004, was $9.7 million. The loss consists of a loss on net interest earnings of $4 million, operating expenses of $3.7 million, and advertising of $2 million.

Net capital assets of $166,000, as of March 31, 2004, represent the acquisition costs of $199,000, mainly for computer hardware, less amortization expense of $33,000.

On April 15, 2003, OMEIFA borrowed $1 billion from the Province of Ontario and $120 million from the Ontario Clean Water Agency (OCWA). In addition, on May 6, 2003, OMEIFA issued Ontario Opportunity Bonds, with proceeds totalling $323 million. The average effective rates of interest paid for the year ended March 31, 2004, were 2.87 per cent for the Provincial loan and 2.88 per cent for the OCWA loan. The annual rate of interest paid for the Ontario Opportunity Bonds was 4.25 per cent. The funds received from the Province and OCWA, as well as the net proceeds from Ontario Opportunity Bonds, were invested in short-term money market instruments. The interest revenues on these investments averaged 2.91 per cent. The unfavourable spread between the cost of borrowing and the return on investments resulted in the net interest losses.

OMEIFA's financial results are consolidated on a line-by-line basis with those of the Province. This accounting treatment is in accordance with the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).

Loan Program

The Authority provides financing for strategic municipal infrastructure priorities including clean water infrastructure, sewage treatment facilities, waste management infrastructure, municipal roads and bridges, and public transit. Only incorporated Ontario municipalities were eligible to apply for loans, subject to a comprehensive approval framework. All borrowers are charged the same rate of interest, which is 50 per cent of a benchmark rate for Ontario municipalities. The loan program is approved by cabinet on an annual basis.

The Authority offers a range of financing options, including construction financing, and works with the borrowing municipality to find the best financial arrangements. The 2003–04 loan program consists of loan agreements or commitments with 88 Ontario municipalities for up to $1 billion.

Schedule of Loans Outstanding

Financing Agreement Status by Category as at March 31, 2004

(dollars in millions)

Financing Status	Subtotal	Water	Sewage	Waste	Roads	Bridges	Transit
Fully Executed	$ 498	$ 138	$ 147	$ 2	$ 86	$ 29	$ 95
Agreement In Place	404	144	142	23	88	6	2
In Drafting Process	44	26	12	5	1	0	0
Total	$ 946	$ 308	$ 301	$ 30	$ 175	$ 35	$ 97
Per Cent of Total	100%	33%	32%	3%	18%	4%	10%

(all figures rounded)

The total amount of advances paid to municipalities as at March 31, 2004 was almost $134 million. Construction loans will be converted to long-term debentures, but there were no conversions as of the end of the 2003–04 fiscal year.

Loan Review Process

Eligible municipalities apply to the Authority using loan application forms either via mail or electronically via the website. Required supporting documentation includes local municipal council by-law authorization, the municipality's Financial Information Return, project descriptions, and any additional information requested by the Authority. In addition to its own qualified staff, the Authority relies on the expertise of the Ministry of Finance and its agencies; Ministry of Environment; Ministry of Municipal Affairs and Housing; Ministry of Transportation; and Ministry of Northern Development and Mines to assist in the review process.

Interest Rates

The interest rate on all of the Authority's short-term construction loans for the 2003–04 loan program is one half of the average of the prime rate and 30-day bankers' acceptances. Rates on construction loans float throughout the term of the loan until they are converted to debentures. Interest rates on serial and amortizer debenture loans are all-in blended rates and contain a discount similar to that of the construction loan rates. The Authority adjusts the interest rates from time to time based on the rates in the capital markets. Rates on debentures, however, are fixed for the entire life of the loan once the debenture is purchased by the Authority.

Borrowing Program

In 2003–04, the source of funding for the loan program was through the sale of Ontario Opportunity Bonds. Investors are exempt from paying Ontario personal or corporate income tax on the interest earned from the bonds. The bonds are not guaranteed by the Province of Ontario. The sales campaign was from April 23, 2003 to May 6, 2003. The bonds were made available through investment dealers, and they could also be ordered directly over the telephone or by mail. Total sales were $323 million.

The major credit rating agencies rated OMEIFA's bonds in July 2003. The high ratings reflect the credit strength of the Authority's borrowers as evidenced by the fact that there has not been a municipal default in Ontario since the Great Depression.

Credit Rating Agency	OMEIFA Rating
DBRS	AA
Moody's	Aa
S & P	AA+

Outreach Strategies and Customer Relations

To encourage awareness of its services, the Authority gave presentations and showcased its services at more than 25 municipal conferences and training sessions in 2003–04. Such outreach opportunities served as a key point of contact with Ontario municipalities and municipal stakeholders, and gave the Authority's staff an opportunity to develop strong working relationships with its municipal client base and stakeholders.

Outreach Highlights

- **Association of Municipalities of Ontario** (AMO) annual conference
    - 2003–04 loan program announced
    - hosted an information booth to profile the loan program to municipal officials

- **Municipal Finance Officers' Association** (MFOA) conference
    - Chief Executive Officer gave a keynote speech to conference participants
    - staff reviewed the status of individual loan applications with municipal clerks and treasurers

- **Ministry of Municipal Affairs and Housing** regional conference
    - senior management gave presentations at sessions on infrastructure financing
    - staff reviewed the status of individual loan applications with municipal officials
    - staff hosted an information booth to profile the loan program to municipal officials

- **2004 Rural Ontario Municipalities Association/Ontario Good Roads Association** conference
    - staff hosted one-on-one information sessions with staff from Ontario's infrastructure ministries
    - senior management spoke on an infrastructure panel
    - staff reviewed the status of individual loan applications with municipal officials

As evidenced by the extensive outreach strategy, the Authority strives to provide a high level of customer service to its clients. The Authority's experienced team of professionals focuses on providing an accessible and transparent loan process. A senior staff member will personally visit or speak with a client to assist them with the loan application and administration process. The Authority also operates an online application process with easy-to-follow documentation templates, and offers a toll-free information hotline.

Risk Management

Effective and prudent risk management and control are vital to ensuring the financial integrity of the Authority. The Authority has developed a risk management framework to ensure that borrowing, lending, and investing portfolios are managed in the most prudent and effective manner.

Risk Elements

The Authority's lending, borrowing, and investment portfolios and the net interest income associated with them are exposed to a number of risks. Principal among these are: (i) interest rate risk, (ii) liquidity risk, (iii) credit risk, and (iv) operational risk.

Interest Rate Risk

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 Authority lends to municipalities for a 20-year term (assets), the debt that the Authority incurred to obtain the funds (liabilities) may have to be issued three or four times over the life of the asset. Each time the debt is rolled over, there is a risk that interest rates will have risen, resulting in either lower net interest income or, if the Authority is lending at a rate below its borrowing cost, greater net loss.

The Authority may also face the same type of risk in its investment portfolio. Both the Province and OCWA have contributed their funding to the reserve fund in the form of floating rate loans and not through an equity investment. If the Authority invests in longer-term financial instruments, the same principle applies.

In 2003–04, management limited interest rate risk by investing in short-term investments. As loans are converted to long-term debentures, the Authority will be hedging its loan portfolio to reduce interest rate risk.

Liquidity Risk

The Authority's reserve fund serves to virtually eliminate liquidity risk in the lending portfolio. The reserve fund is substantial enough to cover any credit events that may occur.

Credit Risk

Credit risk is the prime concern of the Authority's credit committee. While the track record of Ontario municipalities has been exemplary for over 60 years, the Authority's loans are for terms of up to 40 years. To protect against loan default, the Authority gathers and analyzes data from the applicant municipality's financial information return and such other sources as deemed appropriate.

The most recent operating and balance-sheet information is modified by the applicant's loan request to determine the stress that the additional debt will put on the community. In addition to the risk protection afforded by thorough credit analysis, the Authority has further protection through an intercept mechanism provided under the *OMEIFA Act, 2002*—failure to pay may result in provincial grant monies being redirected to cover debt service obligations of a municipality.

The Authority has developed policies and processes for assessing and monitoring the financial viability of municipal borrowers on an ongoing basis.

Operational Risk

Operational risk covers a wide variety of possible negative impacts, ranging from computer systems failure to errors in process to employee fraud. The Authority has developed a comprehensive business continuity plan to deal with systems failures, loss of physical office space, extended power outages, and the like. The Authority's operating procedures have been structured to minimize other operating risks, within the bounds of practicality.

Ontario Strategic Infrastructure Financing Authority

On May 18, 2004, the government created OSIFA as an innovative financing vehicle that can be used by the broader public sector to renew and build critical public infrastructure assets. OSIFA replaces OMEIFA, and assumes all of its outstanding assets, obligations, and commitments.

Renewing Ontario's public infrastructure improves the quality of public services and helps build a strong and prosperous economy.

OSIFA Infrastructure Renewal Loan Program

OSIFA will develop and implement an infrastructure renewal loan program that provides efficient and affordable financing to meet critical municipal, health, education, and housing infrastructure priorities. OSIFA is based on a proven "pooled financing" concept that aggregates the infrastructure investment needs of many borrowers into one borrowing pool. OSIFA will provide access to infrastructure capital that would not otherwise be available to smaller borrowers. Larger borrowers will benefit from significant savings on transaction costs such as legal costs and underwriting commissions. Under the OSIFA approach, all borrowers will receive the same low interest rate.

OSIFA's 2004–05 infrastructure renewal loan program will be focused on Ontario's municipalities, aiming to offer affordable infrastructure financing for five key municipal priorities: clean water infrastructure, sewage treatment facilities, waste-management infrastructure, municipal roads and bridges, and public transit.

The government wants to ensure that borrowers eligible for OSIFA's loan program represent the full scope of needs within the broader public sector. Therefore, along with Ontario municipalities, the OSIFA infrastructure renewal loan program will include hospitals, municipal long-term care facilities, colleges, universities, school boards, and affordable housing providers.

In the coming months the Ministries of Finance and Public Infrastructure Renewal will consult with representatives from line ministries and key stakeholders to design the program parameters for broader public-sector borrowers. These parameters for the OSIFA infrastructure renewal loan program will be announced later this year.

Infrastructure Renewal Bonds

OSIFA will offer a new financial instrument called Infrastructure Renewal Bonds (IRBs) to institutional and individual investors. OSIFA will use the proceeds from the sale of IRBs to fund its infrastructure renewal loan program. IRBs will be attractive to large institutional investors such as pension funds and insurance companies. They will offer an investment that is backed by the credit strength of municipal, hospital, educational, *and other public-sector borrowers. These bonds will provide local investors with a solid* investment for their families and an opportunity to invest in local infrastructure. The first issue of IRBs will take place later this year.

Signed,

Colin Andersen,
Chair, Ontario Strategic Infrastructure Financing Authority
June 17, 2004

Financial Statements

Responsibility for Financial Accounting

The accompanying consolidated financial statements of OMEIFA have been prepared in accordance with accounting principles recommended for governments by CICA and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment.

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. Management Board Secretariat's Internal Audit Services, which provide audit services to 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 of directors.

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

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

On behalf of management,

Bill Ralph	Gregg Smyth
Chief Executive Officer	Vice-President and Chief Financial Officer

ONTARIO MUNICIPAL ECONOMIC INFRASTRUCTURE FINANCING AUTHORITY (OMEIFA)

Financial Statements
For the year ended March 31, 2004

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

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Auditor's Report

To the Ontario Municipal Economic Infrastructure Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Municipal Economic Infrastructure Financing Authority as at March 31, 2004, and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with the accounting principles recommended for governments by the Canadian Institute of Chartered Accountants.

Toronto, Ontario
June 4, 2004

J.R. McCarter, CA
Assistant Provincial Auditor

BALANCE SHEET
As at March 31, 2004

(in thousands of dollars)

ASSETS	
Current assets	
Cash	$ 290
Interest receivable	1,972
Short term investments	1,302,976
Total current assets	1,305,238
Non-current assets	
Loans receivable from municipalities (Note 2)	133,998
Debt issue costs (Note 3)	1,383
Capital assets (Note 4)	166
Total non-current assets	135,547
Total assets	**$** 1,440,785
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities (Note 5)	$ 1,232
Interest payable (Note 6)	5,829
Total current liabilities	7,061
Long-term debt	
Ontario Opportunity Bonds (Note 7)	323,404
Due to the Ontario Clean Water Agency (Note 8)	120,000
Due to the Province of Ontario (Note 9)	1,000,000
Total long-term debt	1,443,404
Total liabilities	1,450,465
Deficit	(9,680)
Total liabilities and deficit	$ 1,440,785

See accompanying notes to financial statements

Approved on behalf of the Board of Directors:

Colin Andersen
Chair

Bill Ralph
Chief Executive Officer

STATEMENT OF OPERATIONS AND DEFICIT
For the year ended March 31, 2004

(in thousands of dollars)

REVENUE	
Interest revenue	$ 39,323
Total revenue	39,323
EXPENSES	
Interest Expense	
To the Province of Ontario	27,575
On the Ontario Opportunity Bonds	12,447
To the Ontario Clean Water Agency	3,317
Sales and marketing	1,995
Salaries, wages and benefits	1,760
Administrative and general	1,570
Amortization of debt issue costs	306
Amortization of capital assets	33
Total expenses	49,003
Loss from Operations	9,680
Deficit, beginning of the year	-
Deficit, end of the year	**$** 9,680

See accompanying notes to financial statements

STATEMENT OF CASHFLOWS

For the year ended March 31, 2004

(in thousands of dollars)

Cash flows from operating activities		
Loss from operations	$	(9,680)
Adjustments for items not affecting cash:		
Amortization of capital assets		33
Amortization of debt issue costs		306
Net increase in working capital		(1,297,887)
Cash flows used in operating activities		(1,307,228)
Cash flows from financing activities		
Proceeds of sale of Ontario Opportunity Bonds		323,404
Proceeds of loan from the Ontario Clean Water Agency		120,000
Proceeds of loan from the Province of Ontario		1,000,000
Issue of loans to municipalities		(133,998)
Debt issue costs		(1,689)
Cash flows from financing activities		1,307,717
Cash flows from investing activities		
Acquisition of capital assets		(199)
Cash flows used in investing activities		(199)
Net increase in cash		290
Cash, beginning of the year		-
Cash, end of the year	$	**290**

See accompanying notes to financial statements

Notes to Financial Statements

For the year ended March 31, 2004

(tabular amounts are in thousands of dollars)

BACKGROUND

The Ontario Municipal Economic Infrastructure Financing Authority (the "OMEIFA") was established on August 19, 2002 under the *Corporations Act* and continued by the *Ontario Municipal Economic Infrastructure Financing Authority Act, 2002*, (the "Act") as a Crown corporation without share capital. The OMEIFA commenced operations in April 2003.

In accordance with the Act, the OMEIFA's objects are:
- to substantially reduce infrastructure financing costs for municipalities and for other public bodies as may be specified by legislation;
- to obtain funding for its activities; and
- to undertake any additional objects as directed by the Lieutenant Governor in Council.

As a Crown corporation, OMEIFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* of Canada.

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting
These financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) as recommended in the Public Sector Accounting Handbook of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the CICA Handbook for private sector corporations in Canada.

Loans receivable
Loans with concessionary terms are discounted using OMEIFA's average cost of borrowing to determine the present value of the loan. The difference between the face value of the loan and its present value is in substance, a grant.

Loans with significant concessionary terms are recorded at face value discounted by the amount of the grant portion. The grant portion is recognized as an expense at the date of issuance of the loan and amortized to revenue over the term of the loan. Loans with non-significant concessionary terms are recorded at face value. OMEIFA has adopted a policy whereby if the value of the concession is greater than 25% of the total loan, then the loan will be considered to have significant concessionary terms.

Loans receivable are stated at their estimated net realizable value.

Measurement uncertainty
The preparation of the financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from these estimates.

Revenue recognition
Revenues are recognized in the fiscal year that the events to which they relate occurred.

Short-term investments
Short-term investments include money market securities with maturities of less than twelve months. As at March 31, 2004 the interest rates ranged from 2.06% to 2.69% on these money market securities. The short term investments are recorded at cost, which approximates market.

Debt issue costs
Debt issue costs are incurred on the sale of Ontario Opportunity Bonds. These costs are amortized over the life of the bond issue.

Capital assets
Capital assets are stated 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 equipment	3 years

2. LOANS RECEIVABLE FROM MUNICIPALITIES

For the year ended March 31, 2004, no loans with significant concessionary terms have been advanced. The loans receivable of $134 million represent construction loans made through the year and are recorded at face value. The interest rate on these construction loans, which is one half of the average of Prime and 30 day Bankers' Acceptances, ranged from 1.45% to 1.82% during the year.

3. DEBT ISSUE COSTS

	Cost	Accumulated Amortization	Net Book Value March 31, 2004
Debt issue costs	1,689	306	1,383
Total	**$ 1,689**	**$ 306**	**$ 1,383**

4. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value March 31, 2004
Computer equipment	199	33	166
Total	**$ 199**	**$ 33**	**$ 166**

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Trade payables and accrued liabilities	$	10
Due to Ontario Financing Authority - Administrative Services		445
- OMEIFA Operating Costs		777
Total	$	1,232

6. INTEREST PAYABLE

Ontario Opportunity Bonds accrued interest	$	5,574
Ontario Clean Water Agency accrued interest		255
Province of Ontario accrued interest		-
Total	$	5,829

7. ONTARIO OPPORTUNITY BONDS

			Amount outstanding as at March 31, 2004	
Bond Issue	Interest rate %	Maturity Date	Principal	Accrued Interest
Series 2003-1	4.25	May 6, 2008	$ 323,404	$ 5,574
			$ 323,404	$ 5,574

8. DUE TO THE ONTARIO CLEAN WATER AGENCY

The Ontario Clean Water Agency ("OCWA") is a related party and has provided a twenty-year loan of $120 million to the OMEIFA in exchange for a promissory note which matures on March 1, 2023. The interest on the note is paid quarterly, with the interest rate set at four basis points below the average one month Certificate of Deposit Overnight Rate.

9. DUE TO THE PROVINCE OF ONTARIO

The Province of Ontario has provided the OMEIFA with a fifty-year loan of $1 billion in exchange for a promissory note which matures on March 31, 2053. The interest on the note is reset quarterly and payable quarterly at the Province's three-month treasury bill rate.

10. RELATED PARTY TRANSACTIONS

In addition to the loans from OCWA and the Province of Ontario, OMEIFA receives administrative services from the Ontario Financing Authority ("the OFA") on a fee for service basis. For the year ended March 31, 2004, services in the amount of $1,076,466 have been received from the OFA and $444,813 is due to the OFA and is included in accounts payable and accrued liabilities. Also, during the year ended March 31, 2004, OMEIFA has provided overnight loans to the Province of Ontario, which earned total interest revenues of $37,513. There were no overnight loans to the Province outstanding as at March 31, 2004.

11. FUTURE EMPLOYEE BENEFITS

The OMEIFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit plan established by the Province of Ontario. The cost of the pension plan is paid by Management Board Secretariat and is not included in the financial statements. In addition, the cost of post-retirement, non-pension employee benefits is also paid by Management Board Secretariat and is not included in the financial statements.

12. FINANCIAL INSTRUMENTS

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

13. CONTINGENCIES AND GUARANTEES

The OMEIFA, in the ordinary course and conduct of its business, may be exposed to various legal proceedings. At March 31, 2004, the OMEIFA was not aware of any such proceedings in process.

14. COMMITMENTS

On August 18, 2003, the Minister of Finance announced that 88 communities will be eligible for $1 billion in low-interest loans to strengthen local communities. As at March 31, 2004, loans in the amount of $134 million have been issued to thirty one municipalities.

15. ECONOMIC DEPENDENCE

The OMEIFA is dependent on the Province of Ontario for the provision of funds to generate interest and investment income which is used to support the concessions provided to municipalities and to recover operating expenses. In addition, the OMEIFA issues Ontario Opportunity Bonds which are exempt from taxation by the Province of Ontario. Based on the Province's support in providing a fifty-year loan to the OMEIFA and providing a tax exemption for Ontario Opportunity Bonds, the OMEIFA is considered a going concern.

16. SALARY DISCLOSURE

The Public Sector Salary Disclosure Act, 1996, requires disclosure of Ontario Public Sector employees paid remuneration (e.g. salary, performance-based pay and severance) during the year in excess of $100,000. The amounts paid to such individuals in calendar 2003 are listed below:

Name	Position	Remuneration Paid	Taxable Benefits
Bill Ralph	Chief Executive Officer	$ 158,670	$ 256
Gregg Smyth	VP, Community Finance & CFO	$ 115,429	$ 211
Susan McGovern	VP, Community Relations & Communications	$ 109,819	$ 191

17. SUBSEQUENT EVENT DISCLOSURE

On May 18, 2004 the Minister of Finance announced the creation of the Ontario Strategic Infrastructure Financing Authority (OSIFA) in the 2004 Ontario Budget. OSIFA replaces OMEIFA and assumes all of OMEIFA's assets and liabilities, including commitments made under the 2003-04 municipal loan program and the Series 2003-1 Ontario Opportunity Bond program.

OSIFA has been established by regulation under the Act. The regulation changes the name of the Authority to OSIFA. OMEIFA's Board of Directors will continue to serve as the Board of Directors for OSIFA.

OSIFA will develop and implement an infrastructure renewal loan program that provides efficient and affordable financing to meet critical municipal, health, education and housing infrastructure priorities. OSIFA will fund this program by offering a new financial instrument called Infrastructure Renewal Bonds.