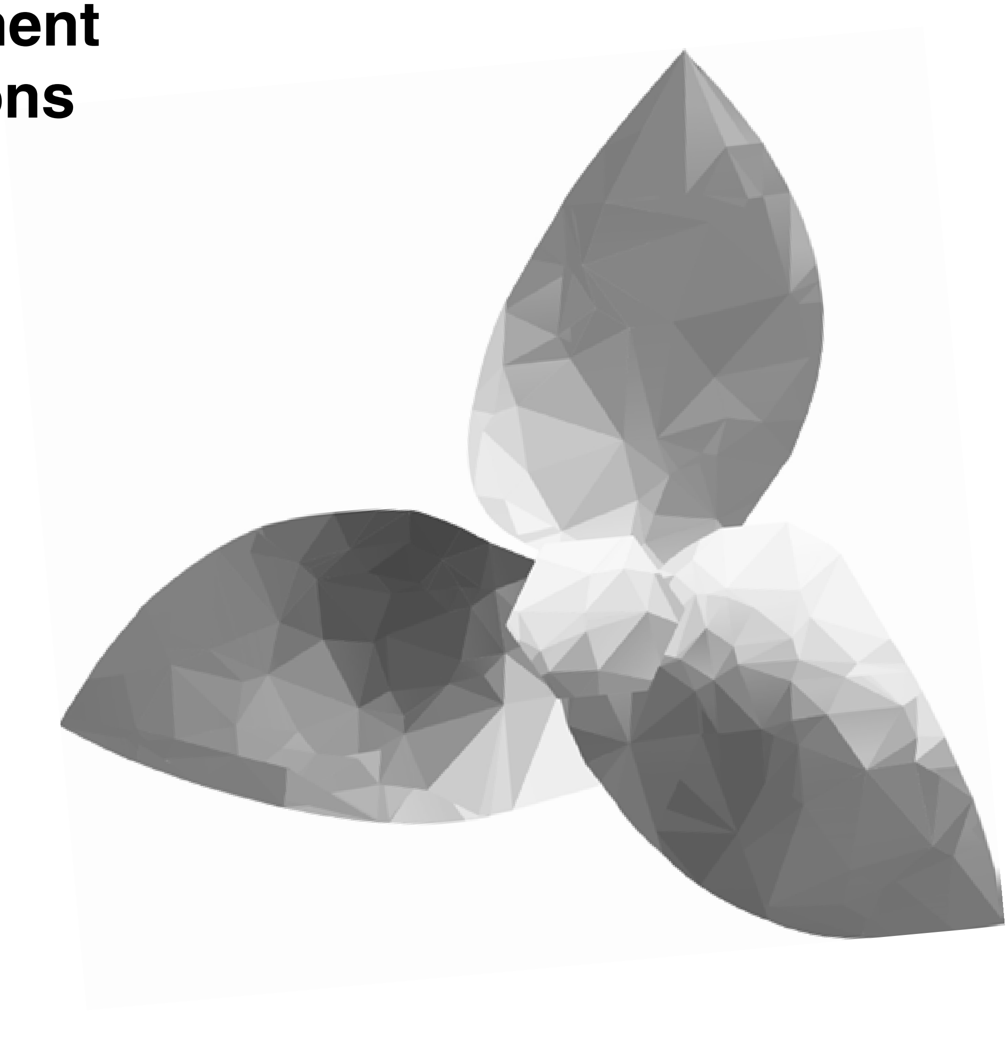
Ontario

Treasury Board Secretariat

# PUBLIC ACCOUNTS OF ONTARIO

## Financial Statements of Government Organizations

**VOLUME 2B**
**2016–2017**



# TABLE OF CONTENTS

## Volume 2B



## FINANCIAL STATEMENTS

### Section 1 ─ Government Organizations – Cont'd

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

Ministry of Agriculture, Food and Rural Affairs
- AgriCorp
- Agricultural Research Institute of Ontario

Ministry of the Attorney General
- Legal Aid Ontario
- The Public Guardian and Trustee for the Province of Ontario

Ministry of Economic Development, Employment and Infrastructure/Research and Innovation
- General Real Estate Portfolio
- Ontario Capital Growth Corporation
- Ontario Immigrant Investor Corporation
- Ontario Infrastructure and Lands Corporation (Infrastructure Ontario)
- Toronto Waterfront Revitalization Corporation (Waterfront Toronto)

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

Ministry of Energy
- Brampton Distribution Holdco Inc.
- Hydro One Limited
- Independent Electricity System Operator
- Ontario Energy Board
- Ontario Power Generation Inc.

Ministry of the Environment and Climate Change
- 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

## 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 and Forestry
- 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

Treasury Board Secretariat
- Ontario Pension Board

# A GUIDE TO THE PUBLIC ACCOUNTS

## 1. SCOPE OF THE PUBLIC ACCOUNTS

The 2016-2017 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, 2016 to March 31, 2017. 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
March 31, 2017

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.

| | |
|---|---|
| Reegan McCullough | Margaret Neubauer |
| Chief Executive Officer | Senior Director, Corporate Services |
| June 23, 2017 | June 23, 2017 |

# Independent auditor's report

**Grant Thornton LLP**
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**To The Niagara Parks Commission,**
**the Minister of Tourism, Culture and Sport and the Auditor General of Ontario**

We have audited the accompanying financial statements of The Niagara Parks Commission, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, accumulated surplus, changes in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation 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.

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 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 of The Niagara Parks Commission for the year ended March 31, 2017 are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 to the financial statements.

## Emphasis of matters

Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes the basis of accounting used in the preparation of these financial statements and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Grant Thornton LLP

Port Colborne, Canada
June 23, 2017

Chartered Professional Accountants
Licensed Public Accountants

## The Niagara Parks Commission
## Statement of Financial Position

| As at March 31 | 2017 | 2016 |
|---|---|---|
| (in thousands of dollars) | | |
| **Financial assets** | | |
| Cash and cash equivalents | **$ 8,207** | $ 395 |
| Accounts receivable | **4,974** | 1,738 |
| Inventories – saleable | **4,055** | 3,892 |
| | **17,236** | 6,025 |
| **Liabilities** | | |
| Bank indebtedness (Note 3) | **-** | 2,180 |
| Accounts payable | **10,977** | 9,041 |
| Accrued payroll | **2,758** | 2,706 |
| Deferred revenue (Note 4) | **2,283** | 1,316 |
| Deferred capital funding (Note 5) | **28,534** | 26,390 |
| Long term financing (Note 6) | **26,592** | 28,371 |
| Post-employment benefits (Note 7) | **3,121** | 3,558 |
| Power plant stabilization obligation (Note 8) | **29,414** | 29,076 |
| | **103,679** | 102,638 |
| **Net debt** | **(86,443)** | (96,613) |
| **Non-financial assets** | | |
| Tangible capital assets (Note 10 and Page 23) | **158,613** | 155,332 |
| Inventories – other | **936** | 1,199 |
| Prepaid expenses | **479** | 1,230 |
| | **160,028** | 157,761 |
| **Accumulated surplus** (Note 11) | **$ 73,585** | $ 61,148 |

Commitments and contingencies (Notes 12 and 13)

On behalf of the Commission

Janice Thomson

Janice Thomson, Chair

Ian Nielsen-Jones, Commissioner

See accompanying notes to the financial statements.

# The Niagara Parks Commission
# Statement of Operations
For the year ended March 31, 2017

| (in thousands of dollars) | Budget 2017 | **Actual 2017** | Actual 2016 |
|---|---|---|---|
| **Revenues** | | | |
| Revenue producing operations | $ 73,088 | **$ 85,424** | $ 76,402 |
| Land rent | 6,997 | **7,009** | 6,882 |
| Commission, rentals and fees | 14,480 | **14,946** | 12,858 |
| Premium on United States funds – net | 800 | **1,119** | 1,073 |
| Government transfers – special projects | - | **520** | - |
| Sundry revenue | 5 | **20** | 7 |
| | 95,370 | **109,038** | 97,222 |
| **Expenses** (Page 24) | | | |
| Revenue producing operations | | | |
| Cost of goods sold | 12,008 | **14,871** | 13,265 |
| Operating | 37,044 | **38,995** | 36,953 |
| Maintenance | 16,133 | **16,343** | 15,759 |
| Administrative and police | 13,689 | **13,838** | 13,584 |
| Marketing and promotion | 3,595 | **3,414** | 3,283 |
| Special projects | - | **520** | - |
| | 82,469 | **87,981** | 82,844 |
| Net surplus for the year before other items | 12,901 | **21,057** | 14,378 |
| **Other items** | | | |
| Interest expense – net (Note 14) | 1,483 | **1,282** | 1,502 |
| Amortization of tangible capital assets (Note 10) | 9,033 | **8,754** | 8,359 |
| Amortization of deferred capital funding (Note 5) | (1,670) | **(1,706)** | (1,498) |
| Gain on disposal of tangible capital assets | - | **(48)** | (34) |
| | 8,846 | **8,282** | 8,329 |
| Net surplus from operations | 4,055 | **12,775** | 6,049 |
| Net increase in power plant stabilization obligation (Note 8) | (705) | **(338)** | (239) |
| **Annual surplus** | $ 3,350 | **$ 12,437** | $ 5,810 |

See accompanying notes to the financial statements.

# The Niagara Parks Commission
# Statement of Accumulated Surplus

For the year ended March 31, 2017

| (in thousands of dollars) | Budget 2017 | **Actual 2017** | Actual 2016 |
|---|---|---|---|
| **Accumulated surplus (Note 11)** | | | |
| Beginning of year | $ 61,148 | **$ 61,148** | $ 55,338 |
| Annual surplus | 3,350 | **12,437** | 5,810 |
| End of year | $ 64,498 | **$ 73,585** | $ 61,148 |

See accompanying notes to the financial statements.

# The Niagara Parks Commission
# Statement of Changes in Net Debt

For the year ended March 31, 2017

| (in thousands of dollars) | Budget 2017 | **Actual 2017** | Actual 2016 |
|---|---|---|---|
| Annual surplus | $ 3,350 | **$ 12,437** | $ 5,810 |
| Amortization of tangible capital assets (Note 10 and Page 22) | 9,033 | **8,754** | 8,359 |
| Purchase of tangible capital assets (Page 22) | (10,955) | **(12,088)** | (7,016) |
| Proceeds from the disposal of tangible capital assets | - | **101** | 34 |
| Gain on sale of tangible capital assets – net | - | **(48)** | (34) |
| | 1,428 | **9,156** | 7,153 |
| Acquisition of prepaid expenses | - | **751** | (357) |
| Use of other inventories | - | **263** | 277 |
| Decrease in net debt | 1,428 | **10,170** | 7,073 |
| **Net debt** | | | |
| Beginning of year | (96,613) | **(96,613)** | (103,686) |
| End of year | $ (95,185) | **$ (86,443)** | $ (96,613) |

See accompanying notes to the financial statements.

# The Niagara Parks Commission
## Statement of Cash Flows

| For the year ended March 31 | 2017 | 2016 |
|---|---|---|
| (in thousands of dollars) | | |
| **Increase in cash and cash equivalents** | | |
| **Operating activities** | | |
| Annual surplus | $ 12,437 | $ 5,810 |
| Charges against income not requiring an outlay of funds | | |
| Amortization of tangible capital assets (Note 10 and Page 22) | 8,754 | 8,359 |
| Amortization of deferred capital funding | (1,706) | (1,498) |
| Gain on disposal of tangible capital assets – net | (48) | (34) |
| Increase in post-employment benefits | 173 | 183 |
| Increase in power plant stabilization obligation – net | 338 | 239 |
| | 19,948 | 13,059 |
| Net change in non-cash working capital balances related to operations (Note 15) | 570 | 1,694 |
| | 20,518 | 14,753 |
| **Capital activities** | | |
| Purchase of tangible capital assets (Page 22) | (12,088) | (7,016) |
| Proceeds from disposal of tangible capital assets | 101 | 34 |
| | (11,987) | (6,982) |
| **Financing activities** | | |
| Repayment of long term financing | (1,779) | (1,701) |
| Payment of post-employment benefits | (610) | (322) |
| Receipt of capital funding | 3,850 | 1,450 |
| | 1,461 | (573) |
| **Net increase in cash and cash equivalents** | 9,992 | 7,198 |
| **Cash and cash equivalents (Note 15)** | | |
| Beginning of year | (1,785) | (8,983) |
| End of year | $ 8,207 | $ (1,785) |

See accompanying notes to the financial statements.

# The Niagara Parks Commission
# Notes to the Financial Statements

For the year ended March 31, 2017

## 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

The financial statements have been prepared in accordance with the financial reporting provisions of the Ontario Financial Administration Act, Ontario Ministry of Tourism Memorandum of Understanding and the accounting requirements of Regulation 395/11 of the Ontario Financial Administration Act. The Ontario Ministry of Tourism Memorandum of Understanding requires that the financial statements be prepared in accordance with the Canadian public sector accounting standards. The Ontario Financial Administration Act provides that changes may be required to the application of these standards as a result of regulation.

Regulation 395/11 to the Ontario Financial Administration Act requires that contributions received or receivable for the acquisition or development of depreciable tangible capital assets and contributions of depreciable tangible capital assets for use in providing services, be recorded as deferred capital contributions and be recognized as revenue in the Statement of Operations at a rate equal to amortization charged on the related depreciable tangible capital assets. These contributions include government transfers and externally restricted contributions.

The accounting requirement under Regulation 395/11 is not consistent with the requirements of Canadian public sector accounting standards which requires that:

- government transfers be recognized as revenue when approved by the transferor and the eligibility criteria have been met unless the transfer contains a stipulation that creates a liability, in which case the transfer is recognized as revenue over the period that the liability is extinguished in accordance with public sector accounting standard PS3410;
- externally restricted contributions be recognized as revenue in the period in which the resources are used for the purpose or purposes specified in accordance with public sector accounting standard PS3100.

As a result revenue recognized in the Statement of Operations and certain related deferred revenues and deferred capital contributions would be recorded differently under Canadian Public Sector Accounting Standards.

# The Niagara Parks Commission
# Notes to the Financial Statements
For the year ended March 31, 2017

**2. Significant accounting policies** (continued)

**Basis of accounting** (continued)

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.

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:

| Classification | Useful Life |
|---|---|
| Land improvements, buildings, roadways and structures | 7 to 40 years |
| Equipment and furnishings | 3 to 10 years |
| Vehicles | 10 to 12 years |

# The Niagara Parks Commission
# Notes to the Financial Statements
For the year ended March 31, 2017

**2. Significant accounting policies** (continued)

**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 and contributed tangible capital assets 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.

**Liabilities for contaminated sites**

Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when a site is not in productive use and all the following criteria are met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the Commission:
  - is directly responsible; or
  - accepts responsibility;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

The liability is recognized as management's estimate of the cost of post-remediation including operation, maintenance and monitoring that are an integral part of the remediation strategy for a contaminated site.

**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 March 31, 2017

## 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. 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 loan facility 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 March 31, 2021, with an option of a three year renewal at the Commission's discretion. As at March 31, 2017, $ Nil has been drawn upon for all credit facilities (2016 - $ 1,371,416). Taking into account outstanding cheques and deposits, the balance reported on the Statement of Financial Position is $ Nil (2016 - $ 2,179,628).

# The Niagara Parks Commission
# Notes to the Financial Statements

For the year ended March 31, 2017

### 4. Deferred revenue

| | **2017** | 2016 |
|---|---|---|
| | *(in thousands of dollars)* | |
| Defunct power stations (Note 8) | **$ 8** | $ 135 |
| Sale proceeds related to Fort Erie land transaction | **314** | 321 |
| Other | **1,961** | 860 |
| | **$ 2,283** | $ 1,316 |

**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 $ 996,000 from these proceeds have been spent on the capital works project for the renovation of Old Fort Erie and approximately $ 47,000 has been spent on the Jarvis Street property maintenance. As of March 31, 2017, approximately $ 314,285 remains for use in 2018 and beyond.

### 5. Deferred capital funding

| | **2017** | 2016 |
|---|---|---|
| | *(in thousands of dollars)* | |
| Deferred capital funding | | |
| Beginning of year | **$ 26,390** | $ 26,438 |
| Received during year for capital projects | **3,850** | 1,450 |
| Amortization | **(1,706)** | (1,498) |
| End of year | **$ 28,534** | $ 26,390 |

# The Niagara Parks Commission
# Notes to the Financial Statements

For the year ended March 31, 2017

## 6. Long term financing

| | **2017** | 2016 |
|---|---|---|
| | *(in thousands of dollars)* | |
| 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 | **$ 21,951** | $ 23,400 |
| 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 | **4,553** | 4,876 |
| The Commission has an option to purchase land requiring annual payments of $ 7,300 until January, 2028 (Note 4) | **88** | 95 |
| | **$ 26,592** | $ 28,371 |

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

| | |
|---|---|
| 2018 | $ 1,877 |
| 2019 | 1,972 |
| 2020 | 2,071 |
| 2021 | 2,173 |
| 2022 | 2,285 |

# The Niagara Parks Commission
# Notes to the Financial Statements

For the year ended March 31, 2017

## 7. 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 March 31, 2017 is $ 3,121,208 (2016 - $ 3,557,888).

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 ended March 31, 2016 with extrapolations through to 2019 and updated on March 29, 2017. The latest valuation reflects approved changes by the Commission regarding eligibility and maximum amounts of the benefit payable upon termination.

The actual obligation as at March 31, 2017 is $ 2,331,209 (2016 - $ 2,674,097) which is the actuarial valuation for March 31, 2017 adjusted for the actual benefits paid of $ 609,558, incorporated in an actuarial update provided dated March 29, 2017.

Defined benefit plan information

| | **2017** | 2016 |
|---|---|---|
| | *(in thousands of dollars)* | |
| Employee benefit plan assets | **$ Nil** | $ Nil |
| Employee benefit plan liabilities | **3,121** | 3,558 |
| Employee benefit plan deficit | **$ 3,121** | $ 3,558 |
| Benefit obligation recognized on the Statement of Financial Position | | |
| Benefit obligation, beginning of year | **$ 3,558** | $ 3,697 |
| Expense for the year | **173** | 183 |
| Benefits paid during the year | **(610)** | (322) |
| Benefit obligation, end of year | **$ 3,121** | $ 3,558 |

# The Niagara Parks Commission
# Notes to the Financial Statements
For the year ended March 31, 2017

**7. Post-employment benefits** (continued)

| | **2017** | 2016 |
|---|---|---|
| | *(in thousands of dollars)* | |
| The net benefit expense is as follows: | | |
| Current service cost | **$ 163** | $ 170 |
| Interest cost | **104** | 117 |
| Amortization of actuarial gain/loss | **(94)** | (104) |
| | **$ 173** | $ 183 |

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 4.25% (2016 - 4.25%).

Salary levels – future salary and wage levels were assumed to increase at 2% per annum.

These assumptions were reviewed in the current year.

**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 $ 2,316,697 (2016 - $ 2,318,548), of which $ 1,158,349 (2016 - $ 1,159,274) 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.

# The Niagara Parks Commission
# Notes to the Financial Statements
For the year ended March 31, 2017

### 8. 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 March 31, 2017, ongoing discussions 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.

VFA, Inc. has reviewed the infrastructure through site visits and prepared estimates using standard engineering formulas. Further, they have provided the Commission with their assessment and a requirements list report providing costs for each component of stabilization required, as well as the timing of when these costs should be incurred. Commission engineering staff have reviewed the list and categorized the costs by year according to urgency and based on expected available funding, with the most urgent requirements addressed over the next two years. In addition, the Commission undertook several studies to determine critical underground infrastructure that needs replacing, including seismic studies, review of intake gates, geophysical and geotechnical settlement and a stability investigation.

The stabilization obligation as of March 31, 2017 has been calculated to be $ 29,414,141 (2016 - $ 29,076,363). This is an increase of $ 337,778 from 2016 and has been recorded in the Statement of Operations.

This obligation represents the Commission’s best estimate of the costs required to “stabilize and mothball” the three power stations based on the information noted above. The Commission estimates that this work could take approximately four years to complete and estimates the costs to increase by 1.5% per year, being the five year average industrial construction inflation rate according to Statistics Canada.

# The Niagara Parks Commission
# Notes to the Financial Statements

For the year ended March 31, 2017

**8. Power plant stabilization obligation** (continued)

| | **2017** | 2016 |
|---|---|---|
| | *(in thousands of dollars)* | |
| Power plant stabilization obligation | | |
| Beginning of year | **$ 29,076** | $ 28,837 |
| Increase in present value of obligation | **709** | 704 |
| Actual work performed during year | **(371)** | (465) |
| Net increase in power plant stabilization obligation | **338** | 239 |
| End of year | **$ 29,414** | $ 29,076 |

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, Culture and Sport to assist in the "stabilizing and mothball" process. Approximately $ 7,800 of this funding remains for use in 2018 and beyond. The actual work performed in 2017 was funded from other grants received from the Province.

Actual work performed in 2017 of $ 371,254 was completed of which $ 317,714 was funded from 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 Commission has engaged the services of The Ventin Group Inc. to review existing studies in order to update the requirements necessary to bring the power plants to a development ready state. This process is expected to continue in 2018. Reductions to the Power Plant Stabilization Obligation will occur as actual work is completed.

# The Niagara Parks Commission
# Notes to the Financial Statements
For the year ended March 31, 2017

## 9. Liabilities for contaminated sites

The Commission reports environmental liabilities related to the management and remediation of any contaminated sites where the Commission is obligated or likely obligated to incur such costs. Currently no such contaminated sites have been identified and therefore no liability has been recorded.

The Commission's ongoing efforts to assess contaminated sites may result in future environmental remediation liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. Any changes to the Commission's liabilities for contaminated sites will be accrued in the year in which they are assessed as likely and reasonably estimable.

## 10. Tangible capital assets

| | | | **2017** | 2016 |
|---|---|---|---|---|
| | | | *(in thousands of dollars)* | |
| | Cost | Accumulated Depreciation | **Net Book Value** | Net Book Value |
| Land | $ 14,359 | $ - | **$ 14,359** | $ 14,359 |
| Land improvements | 17,135 | - | **17,135** | 17,135 |
| Buildings, roadways and structures | 241,819 | 121,934 | **119,885** | 118,341 |
| Equipment and furnishings | 44,148 | 39,406 | **4,742** | 4,297 |
| Vehicles | 4,887 | 3,160 | **1,727** | 975 |
| | 322,348 | 164,500 | **157,848** | 155,107 |
| Capital works in progress | 765 | - | **765** | 225 |
| | $ 323,113 | $ 164,500 | **$ 158,613** | $ 155,332 |
| Equipment under capital lease included above | $ 69 | $ 63 | **$ 6** | $ 13 |

Amortization of tangible capital assets

| | Budget 2017 | **Actual 2017** | Actual 2016 |
|---|---|---|---|
| | | *(in thousands of dollars)* | |
| Amortization of income producing assets | $ 4,443 | **$ 4,230** | $ 4,428 |
| Amortization of non-income producing assets | 4,590 | **4,524** | 3,931 |
| | $ 9,033 | **$ 8,754** | $ 8,359 |

# The Niagara Parks Commission
# Notes to the Financial Statements
For the year ended March 31, 2017

## 11. Accumulated surplus

| | **2017** | 2016 |
|---|---|---|
| | *(in thousands of dollars)* | |
| Operating surplus (deficit) | **$ 2,633** | $ (6,789) |
| Investment in tangible capital assets | **130,079** | 128,942 |
| Unfunded | | |
| Long term debt | **(26,592)** | (28,371) |
| Post-employment benefits | **(3,121)** | (3,558) |
| Power plant stabilization obligation | **(29,414)** | (29,076) |
| | **(59,127)** | (61,005) |
| Accumulated surplus | **$ 73,585** | $ 61,148 |

### 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 March 31, 2017 no surplus moneys have been recorded as a liability to the Minister of Finance.

## 12. Commitments

The Commission has committed to approximately $ 13,288,000 in capital works projects in the next year.

The Commission has two agreements with a franchisor requiring the payment of service fees of 4.5% of gross sales and advertising and marketing fees of 2.5% of gross sales. The terms of the agreements are ten years, expiring in April, 2017 and October, 2022.

The Commission leases vehicles, equipment and premises under operating leases expiring in 2018. The total obligation under operating leases amounts to approximately $ 8,603 in 2018.

## 13. 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.

# The Niagara Parks Commission
# Notes to the Financial Statements
For the year ended March 31, 2017

### 14. Interest expense – net

| | Budget 2017 | **Actual 2017** | Actual 2016 |
|---|---|---|---|
| | | *(in thousands of dollars)* | |
| Interest revenue | $ (30) | **$ (138)** | $ (48) |
| Loan interest expense | 1,513 | **1,420** | 1,550 |
| | $ 1,483 | **$ 1,282** | $ 1,502 |

### 15. Statement of cash flows

| | **2017** | 2016 |
|---|---|---|
| | *(in thousands of dollars)* | |
| Changes in working capital components include | | |
| Accounts receivable | **$ (3,236)** | $ (302) |
| Inventories – saleable and other | **100** | 274 |
| Accounts payable | **1,936** | 2,064 |
| Accrued payroll | **52** | 117 |
| Deferred revenue | **967** | (102) |
| Prepaid expenses | **751** | (357) |
| | **$ 570** | $ 1,694 |
| Cash and cash equivalents consist of: | | |
| Cash on hand | **$ 424** | $ 395 |
| Cash balance with banks (bank indebtedness) | **7,783** | (2,180) |
| | **$ 8,207** | $ (1,785) |

# The Niagara Parks Commission
## Schedule of Tangible Capital Assets
For the year ended March 31, 2017

| (in thousands of dollars) | Land | Land Improvements | Buildings, Roadways and Structures | Equipment and Furnishings | Vehicles | Capital Works in Progress | **2017** | 2016 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| Beginning of year | $ 14,359 | $ 17,135 | $ 233,117 | $ 42,496 | $ 4,086 | $ 225 | **$ 311,418** | $ 304,582 |
| Add additions | - | - | 8,477 | 1,909 | 937 | 765 | **12,088** | 7,016 |
| Less disposals | - | - | - | (257) | (136) | - | **(393)** | (180) |
| Transfers of capital works in progress | - | - | 225 | - | - | (225) | **-** | - |
| End of year | 14,359 | 17,135 | 241,819 | 44,148 | 4,887 | 765 | **323,113** | 311,418 |
| **Accumulated amortization** | | | | | | | | |
| Beginning of year | - | - | 114,776 | 38,199 | 3,111 | - | **156,086** | 147,907 |
| Add amortization | - | - | 7,158 | 1,415 | 181 | - | **8,754** | 8,359 |
| Less disposals | - | - | - | (208) | (132) | - | **(340)** | (180) |
| End of year | - | - | 121,934 | 39,406 | 3,160 | - | **164,500** | 156,086 |
| **Net book value** | $ 14,359 | $ 17,135 | $ 119,885 | $ 4,742 | $ 1,727 | $ 765 | **$ 158,613** | $ 155,332 |

## The Niagara Parks Commission
## Schedule of Expenses by Object

For the year ended March 31, 2017

| (in thousands of dollars) | Budget 2017 | **Actual 2017** | Actual 2016 |
|---|---|---|---|
| Cost of goods sold | $ 12,008 | **$ 14,871** | $ 13,265 |
| Salaries, wages and benefits | 47,159 | **48,399** | 46,343 |
| Sales and other | 3,448 | **3,950** | 3,466 |
| Equipment repairs and maintenance | 4,405 | **4,652** | 4,451 |
| Materials and supplies | 2,651 | **2,700** | 2,568 |
| Advertising and promotion | 2,793 | **3,050** | 2,684 |
| Facilities | 7,025 | **6,772** | 6,793 |
| Administrative | 2,980 | **3,067** | 3,274 |
| Special projects | - | **520** | - |
| | $ 82,469 | **$ 87,981** | $ 82,844 |

Ontario
Northern Ontario Heritage Fund Corporation
Société de gestion du Fonds du patrimoine du Nord de l'Ontario

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**Northern Ontario Heritage Fund Corporation**
**Year ended March 31, 2017**

## 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 8, 2017.

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 | Melanie Muncaster |
| *Executive Director* | *Assistant Director* |
| NOHFC | NOHFC |

Susan Richichi, CPA, CA
*Manager Financial Services*
NOHFC

Jocelyn Ouellet, CPA, CMA
*Senior Corporate Controller*
NOHFC

Glen Vine
*Manager Program Services*
NOHFC

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale 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, 2017 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, 2017, 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 8, 2017

Susan Klein, CPA, CA, LPA
Assistant Auditor General

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# NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Financial Position

March 31, 2017, with comparative information for 2016

| ($000s) | 2017 | 2016 |
|---|---|---|
| **Financial Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (note 3) | $ 301,466 | $ 283,223 |
| Accrued interest | 488 | 448 |
| Loans receivable (note 4) | 41,591 | 43,278 |
| | 343,545 | 326,949 |
| **Financial Liabilities** | | |
| Accounts payable and accrued liabilities (note 5) | 10,462 | 13,559 |
| Net financial assets | 333,083 | 313,390 |
| **Non-Financial Assets** | | |
| Tangible capital assets (note 6) | 5 | 9 |
| Commitments (note 9) | | |
| Net investment by the Province of Ontario | $ 333,088 | $ 313,399 |

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

Year ended March 31, 2017, with comparative information for 2016

| ($000s) | Budget 2017 | 2017 | 2016 |
|---|---|---|---|
| Revenue: | | | |
| Province of Ontario grant | $ 100,000 | $ 100,000 | $ 100,000 |
| Interest on cash and cash equivalents | 2,355 | 1,933 | 2,163 |
| Interest on loans receivable | 2,068 | 2,158 | 2,233 |
| Recoveries | – | 1,167 | 1,152 |
| | 104,423 | 105,258 | 105,548 |
| Expenses: | | | |
| Conditional contributions | 81,081 | 74,834 | 74,705 |
| Credit losses (note 7) | 8,823 | 2,981 | 5,976 |
| Administration (note 8) | 9,699 | 7,754 | 7,051 |
| | 99,603 | 85,569 | 87,732 |
| Excess of revenue over expenses | $ 4,820 | 19,689 | 17,816 |
| Net investment by the Province of Ontario, beginning of year | | 313,399 | 295,583 |
| Net investment by the Province of Ontario, end of year | | $ 333,088 | $ 313,399 |

See accompanying notes to financial statements.

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Changes in Net Financial Assets

Year ended March 31, 2017, with comparative information for 2016

| ($000s) | 2017 | 2016 |
|---|---|---|
| Excess of revenue over expenses | $ 19,689 | $ 17,816 |
| Amortization of capital assets | 4 | 3 |
| Increase in net financial assets | 19,693 | 17,819 |
| Net financial assets beginning of year | 313,390 | 295,571 |
| Net financial assets, end of year | $ 333,083 | $ 313,390 |

See accompanying notes to financial statements.

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Cash Flows

Year ended March 31, 2017 with comparative information for 2016

| ($000s) | 2017 | 2016 |
|---|---|---|
| Lending, investing and financial assistance activities: | | |
| Loan disbursements | $ (14,925) | $ (15,923) |
| Loan repayments and recoveries | 14,802 | 13,028 |
| Conditional contributions | (77,197) | (76,612) |
| Interest received on loans receivable | 2,175 | 2,285 |
| Other revenue | 7 | 393 |
| | (75,138) | (76,829) |
| Financing activities: | | |
| Cash contributions from the Province for lending and financial assistance activities | 100,000 | 100,000 |
| Operating activities: | | |
| Amortization | (4) | (3) |
| Interest received on cash and cash equivalents | 1,867 | 2,882 |
| Administration costs | (8,482) | (6,759) |
| | (6,619) | (3,880) |
| Net increase in cash and cash equivalents | 18,243 | 19,291 |
| Cash and cash equivalents, beginning of year | 283,223 | 263,932 |
| Cash and cash equivalents, end of year | $ 301,466 | $ 283,223 |

See accompanying notes to financial statements.

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2017

**1. Nature of the business:**

The Northern Ontario Heritage Fund Corporation (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 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 and entrepreneurs across Northern Ontario to create jobs and strengthen the Northern economy. The Corporation delivers five targeted programs as follows: Strategic Economic Infrastructure Program, Northern Community Capacity Building Program, Northern Innovation Program, Northern Business Opportunity Program, and Northern Ontario Internship Program.

**2. Significant accounting policies:**

The significant accounting policies used to prepare these financial 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 (PSAB) of the Chartered Professional Accountants of Canada.

(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.

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2017

## 2. Significant accounting policies (continued):

(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.

(e) Tangible capital assets:

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

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

| | Years |
|---|---|
| Automotive | 7 |

(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 a general provision on the remaining loans and is deducted from loans receivable.

The amounts written off and written down in the year and changes in provisions, are charged to credit losses in the Statement of Operations. Recoveries reflect Funds received during the year from loans provided for in a prior year and are recorded as recoveries on 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. Interest revenue on loans receivable is recognized in the financial statements in an amount estimated to be recoverable. Interest revenue ceases to be recognized on fully impaired loans.

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2017

**2. Significant accounting policies (continued):**

(h) Conditional contributions and forgivable loans:

The Corporation expenses conditional contributions and forgivable performance 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 revenue 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.

**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:

| ($000s) | 2017 | 2016 |
|---|---|---|
| Cash | $ 100,243 | $ 83,255 |
| Short-term investments | 201,223 | 199,969 |
| | $ 301,466 | $ 283,224 |

Short-term investments consist of Treasury Bills (maturing within 365 days) which yielded 0.67% on average (2016 – 0.63%). All Treasury Bills are redeemable on demand.

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2017

## 4. Loans receivable:

| ($000s) | 2017 | 2016 |
|---|---|---|
| Current | $ 7,118 | $ 7,185 |
| Long-term | 58,896 | 63,405 |
| Loans in arrears and default | 10,080 | 7,829 |
| Provision for credit losses | (34,217) | (34,846) |
| Loan discount | (286) | (295) |
| | $ 41,591 | $ 43,278 |

Generally, loans bear fixed interest rates ranging from 0% to 8.25% and are fully repayable within 20 years from the date disbursed.

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

| ($000s) | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | $ 34,846 | $ 56,650 |
| Loans written off in the year | (2,478) | (27,099) |
| Change in loan provision | 1,849 | 5,295 |
| Balance, end of year | $ 34,217 | $ 34,846 |

The change in the loan discount balances are as follows:

| ($000s) | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | $ 295 | $ 346 |
| Amount of loan discount written down | – | (2) |
| Amount amortized to interest on loans receivable | (9) | (49) |
| Balance, end of year | $ 286 | $ 295 |

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2017

**5. Accounts payable and accrued liabilities:**

Accounts payable and accrued liabilities relate largely to normal business transactions with recipients, in accordance with conditional grant agreements and intercompany balance between the Ministry and the Corporation.

**6. Tangible capital assets:**

| ($000s) | 2017 | 2016 |
|---|---|---|
| Cost | | |
| Opening | $ 26 | $ 26 |
| Additions | – | – |
| Closing | 26 | 26 |
| Accumulated amortization: | | |
| Opening | 17 | 14 |
| Amortization | 4 | 3 |
| Closing | 21 | 17 |
| Net book value, end of year | $ 5 | $ 9 |

**7. Credit losses:**

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

| ($000s) | 2017 | 2016 |
|---|---|---|
| Loans written off in the year | $ 2,478 | $ 27,099 |
| Less: amounts provided for in previous years | (2,478) | (27,077) |
| Closing | – | 22 |
| Changes in provision on active loans | 2,981 | 5,956 |
| Change in credit loss provision | 2,981 | 5,978 |
| Discount adjustment | – | (2) |
| Credit losses | $ 2,981 | $ 5,976 |

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2017

**8. Administration expenses:**

Details of administration expenses in the year are as follows:

| ($000s) | Budget 2017 | 2017 | 2016 |
|---|---|---|---|
| Salaries, wages and benefits | $ 2,096 | $ 1,952 | $ 1,674 |
| Transportation and communications | 339 | 386 | 254 |
| Services | 3,153 | 2,214 | 1,688 |
| Management fees | 4,040 | 3,047 | 3,019 |
| Marketing | – | 122 | 6 |
| Supplies and equipment | 67 | 29 | 42 |
| Financial information system | – | – | 365 |
| Amortization on tangible capital assets | 4 | 4 | 3 |
| | $ 9,699 | $ 7,754 | $ 7,051 |

The Province provides pension benefits for all of the Corporation'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 Province and are not included in these financial statements.

**9. Commitments:**

Funds committed but not disbursed as at March 31, 2017 are $252,664,593 (2016 – $217,197,435).

**10. Financial instruments:**

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

(a) 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,

# NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2017

registers security on the loans and maintains provisions for contingent credit losses.

(b) 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.

(c) Market risk:

Market risk is comprised of currency risk, interest rate risk and other price risk. The Corporation does not conduct any 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.

Public Health Ontario | Santé publique Ontario
PARTNERS FOR HEALTH | PARTENAIRES POUR LA SANTÉ

## MANAGEMENT RESPONSIBILITY REPORT

Public Health Ontario 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.

Public Health Ontario 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 Public Health Ontario 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 & 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 & Finance Standing Committee.

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

Cathy Campos.

Cathy Campos, CPA, CA
Chief Financial Officer

Peter Donnelly

Peter Donnelly
President and Chief Executive Officer

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Ontario
Agency for Health Protection and Promotion
Agence de protection et de promotion de la santé

# 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, 2017, 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, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
June 20, 2017

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

# Statement of financial position

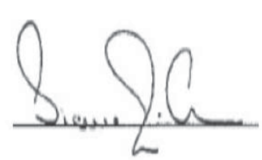
[in thousands of dollars]

As at March 31

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | **28,612** | 22,196 |
| Accounts receivable *[note 3]* | **2,149** | 10,693 |
| Prepaid expenses | **1,453** | 2,110 |
| **Total current assets** | **32,214** | 34,999 |
| Restricted cash *[note 4]* | **7,072** | 8,782 |
| Capital assets, net *[note 5]* | **88,800** | 97,420 |
| | **128,086** | 141,201 |
| | | |
| **Liabilities and net assets** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **26,150** | 29,736 |
| **Total current liabilities** | **26,150** | 29,736 |
| Deferred capital asset contributions *[note 6]* | **91,041** | 100,345 |
| Deferred contributions *[note 7]* | **3,068** | 2,904 |
| Accrued benefit liability *[note 8]* | **3,616** | 4,432 |
| Other liabilities | **4,211** | 3,784 |
| **Total liabilities** | **128,086** | 141,201 |
| Commitments and contingencies *[note 11]* | | |
| | | |
| **Net assets** | **—** | — |
| | **128,086** | 141,201 |

*See accompanying notes*

On behalf of the Board:



**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

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **Revenue** | | |
| Ministry of Health and Long-Term Care | | |
| Base operations | **152,960** | 151,437 |
| Health Promotion Resource Centre | **3,573** | 3,573 |
| Amortization of deferred capital asset contributions *[note 6]* | **6,932** | 7,873 |
| Other grants | **1,746** | 1,705 |
| Miscellaneous recoveries | **1,787** | 876 |
| | **166,998** | 165,464 |
| **Expenses** *[note 8]* | | |
| Public health laboratory program | **102,690** | 100,514 |
| Science and public health programs | **43,361** | 42,578 |
| General and administration *[note 9]* | **14,015** | 14,499 |
| Amortization of capital assets | **6,932** | 7,873 |
| | **166,998** | 165,464 |
| **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

| | **2017** $ | **2016** $ |
|---|---|---|
| **Operating activities** | | |
| Excess of revenue over expenses for the year | **—** | — |
| Add (deduct) items not affecting cash | | |
| Amortization of deferred capital asset contributions | **(6,932)** | (7,873) |
| Amortization of capital assets | **6,932** | 7,873 |
| | **—** | — |
| Changes in non-cash operating items | | |
| Decrease (increase) in accounts receivable *[note 10]* | **5,701** | (2,810) |
| Decrease (increase) in prepaid expenses | **657** | (58) |
| Increase in deferred contributions | **164** | 487 |
| Increase in other liabilities | **427** | 1,345 |
| Decrease in accounts payable and accrued liabilities *[note 10]* | **(57)** | (28) |
| Net change in accrued benefit liability | **(816)** | (542) |
| **Cash provided by (used in) operating activities** | **6,076** | (1,606) |
| **Capital activities** | | |
| Net acquisition of capital assets *[note 10]* | **(1,841)** | (12,858) |
| **Cash used in capital activities** | **(1,841)** | (12,858) |
| **Financing activities** | | |
| Contributions for capital asset purchases *[note 10]* | **471** | 11,400 |
| Decrease in restricted cash | **1,710** | 132 |
| **Cash provided by financing activities** | **2,181** | 11,532 |
| **Net increase (decrease) in cash during the year** | **6,416** | (2,932) |
| Cash, beginning of year | **22,196** | 25,128 |
| **Cash, end of year** | **28,612** | 22,196 |

*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, 2017

## 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 recorded 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.

**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.

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

## Notes to financial statements

[in thousands of dollars]

March 31, 2017

**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 13 years for 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.

**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. Significant estimates and assumptions used in these financial statements require the exercise of judgment and are used for, but not limited to, salary and benefit accruals, employee future benefit plans [severance credits] and the estimated useful lives of capital assets. Actual results could differ from these estimates.

### 3. Accounts receivable

Accounts receivable consist of the following:

| | **2017** | **2016** |
|---|---|---|
| | $ | $ |
| Ministry of Health and Long-Term Care *[note 5]* | **822** | 9,645 |
| Harmonized Sales Tax | **532** | 530 |
| Other | **795** | 518 |
| | **2,149** | 10,693 |

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

## Notes to financial statements

[in thousands of dollars]

March 31, 2017

### 4. Restricted cash

[a] Restricted cash consists of the following:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Ministry of Health and Long-Term Care *[note 4[b]]* | **6,969** | 8,633 |
| Sheela Basrur Centre *[note 7[a]]* | **103** | 149 |
| | **7,072** | 8,782 |

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]],* 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. Funds associated with capital projects are drawn down when capital assets are purchased.

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

| | 2017 | | | |
|---|---|---|---|---|
| | Severance credits<br>$ | Other credits<br>$ | Capital projects<br>$ | Total<br>$ |
| **Restricted cash, beginning of year** | **4,231** | **1,477** | **2,925** | **8,633** |
| Interest earned *[note 6]* | **36** | **13** | **38** | **87** |
| Restricted cash drawdown *[note 8[b]]* | **(950)** | **(79)** | **(722)** | **(1,751)** |
| **Restricted cash, end of year** | **3,317** | **1,411** | **2,241** | **6,969** |

| | 2016 | | | |
|---|---|---|---|---|
| | Severance credits<br>$ | Other credits<br>$ | Capital projects<br>$ | Total<br>$ |
| **Restricted cash, beginning of year** | 4,873 | 1,505 | 2,357 | 8,735 |
| Funding received | — | — | 1,536 | 1,536 |
| Interest earned *[note 6]* | 45 | 14 | 59 | 118 |
| Restricted cash drawdown *[note 8[b]]* | (687) | (42) | (1,027) | (1,756) |
| **Restricted cash, end of year** | 4,231 | 1,477 | 2,925 | 8,633 |

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

# Notes to financial statements

[in thousands of dollars]

March 31, 2017

## 5. Capital assets

Capital assets consist of the following:

| | 2017 | | |
|---|---|---|---|
| | Cost | Accumulated amortization | Net book value |
| | $ | $ | $ |
| Building service equipment | **369** | **302** | **67** |
| Other equipment | **31,764** | **27,559** | **4,205** |
| Furniture | **3,838** | **2,925** | **913** |
| Leasehold improvements | **96,789** | **15,537** | **81,252** |
| Construction in progress | **2,363** | **—** | **2,363** |
| | **135,123** | **46,323** | **88,800** |

| | 2016 | | |
|---|---|---|---|
| | Cost | Accumulated amortization | Net book value |
| | $ | $ | $ |
| Building service equipment | 369 | 266 | 103 |
| Other equipment | 30,850 | 25,540 | 5,310 |
| Furniture | 3,818 | 2,566 | 1,252 |
| Leasehold improvements | 99,354 | 11,019 | 88,335 |
| Construction in progress | 2,420 | — | 2,420 |
| | 136,811 | 39,391 | 97,420 |

In 2015, OAHPP completed leasehold improvements for a new laboratory facility. During 2017, costs of $2,665 were determined to be those of the landlord and not OAHPP. As a result, OAHPP removed leasehold improvements from capital assets with a cost of $2,665 and a corresponding amount from accounts payable and accrued liabilities as these costs were unpaid.

As funding was no longer due from the MOHLTC related to these leasehold improvements, OAHPP reduced accounts receivable from the MOHLTC *[note 3]* and deferred capital asset contributions *[note 6]* by $2,665 and further reduced accounts receivable and deferred capital contributions for amounts accrued in excess of costs incurred of $304. The remaining unspent deferred capital contributions of $145 related to these leasehold improvements was removed from deferred capital contributions and recorded as due to the MOHLTC.

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

## Notes to financial statements

[in thousands of dollars]

March 31, 2017

### 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:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Deferred capital asset contributions, beginning of year** | **100,345** | 104,252 |
| Contributions for capital purposes | **704** | 3,907 |
| Adjustment to deferred capital assets contributions *[note 5]* | **(3,114)** | — |
| Interest earned on unspent contributions *[note 4[b]]* | **38** | 59 |
| Amortization of deferred capital asset contributions | **(6,932)** | (7,873) |
| Deferred capital asset contributions, end of year | **91,041** | 100,345 |
| Unspent deferred capital asset contributions *[note 4[b]]* | **(2,241)** | (2,925) |
| **Deferred capital asset contributions spent on capital assets** | **88,800** | 97,420 |

Restricted cash includes $2,241 [2016 – $2,925] *[note 4[b]]* related to unspent deferred capital asset contributions.

### 7. Deferred contributions

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

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Severance credits | **671** | 783 |
| Sheela Basrur Centre *[note 4[a]]* | **103** | 149 |
| Third party funds | **2,294** | 1,972 |
| | **3,068** | 2,904 |

The continuity of deferred contributions is as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Deferred contributions, beginning of year** | **2,904** | 2,417 |
| Amounts received during the year | **2,022** | 2,254 |
| Amounts recognized as revenue during the year | **(1,858)** | (1,767) |
| **Deferred contributions, end of year** | **3,068** | 2,904 |

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

# Notes to financial statements
[in thousands of dollars]

March 31, 2017

[b] Deferred contributions for severance credits represent the difference between the restricted cash held for severance credits *[note 4[b]]* 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, $278 [2016 – $257] is held by the Toronto 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.

### 8. Employee future benefit plans

**[a] Multi-employer pension plans**

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 $2,043 [2016 – $2,081], $3,915 [2016 – $3,473] and $511 [2016 – $518], respectively, and are included in expenses in the statement of operations and changes in net assets.

The most recent valuation for financial reporting purposes completed by OPSEU as of December 31, 2016 disclosed net assets available for benefits of $19.0 million with pension obligations of $17.3 million, resulting in a surplus of $1.7 million.

The most recent valuation for financial reporting purposes completed by HOOPP as of December 31, 2016 disclosed net assets available for benefits of $70.4 million with pension obligations of $54.5 million, resulting in a surplus of $15.9 million.

The most recent valuation for financial reporting purposes completed by PSPP as of December 31, 2015 disclosed net assets available for benefits of $10.9 million with pension obligations of $11.1 million, resulting in a deficit of $0.2 million.

**[b] Severance credits**

OAHPP assumed the unfunded 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 plans was performed as at March 31, 2015. 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.

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

## Notes to financial statements

[in thousands of dollars]

March 31, 2017

Additional information on the benefit plans is as follows:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Accrued benefit obligation | **4,047** | 4,905 |
| Unamortized actuarial losses | **(431)** | (473) |
| **Accrued benefit liability, end of year** | **3,616** | 4,432 |

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

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **Accrued benefit liability, beginning of year** | **4,432** | 4,974 |
| Expense for the year | **134** | 145 |
| Contributions to cover benefits paid *[note 4[b]]* | **(950)** | (687) |
| **Accrued benefit liability, end of year** | **3,616** | 4,432 |

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

| | 2017 | 2016 |
|---|---|---|
| | % | % |
| Accrued benefit obligation | | |
| Discount rate | **2.00** | 2.00 |
| Rate of compensation increase | **2.25** | 2.25 |
| Rate of inflation | **2.00** | 2.00 |
| Expense | | |
| Discount rate | **2.00** | 2.00 |
| Rate of compensation increase | **2.25** | 2.25 |
| Rate of inflation | **2.00** | 2.00 |

### 9. Directors' remuneration

The Government Appointees Directive requires the disclosure of remuneration paid to directors. During the year ended March 31, 2017, directors were paid $27 [2016 – $17].

### 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 of $2,629 [2016 – $6,158] 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, 2017

The change in accounts receivable related to contributions for capital asset purchases, is adjusted for contributions receivable but not received as at March 31, 2017 of $822 [2016 – $3,665] 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 that 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 that 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, 2017, no assessments have been received.

[c] OAHPP has committed future minimum annual payments to Infrastructure Ontario related to premises as follows:

| | $ |
|---|---|
| 2018 | 16,927 |
| 2019 | 16,643 |
| 2020 | 14,337 |
| 2021 | 11,802 |
| 2022 | 11,920 |
| Thereafter | 234,348 |

# Ontario Capital Growth Corporation

June 20, 2017

## 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 March 31, 2017.

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:

Robert Burns, Interim President and Chief Executive Officer

June 20, 2017

## 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, 2017 and 2016 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. These 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

**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, 2017 and 2016, and the results of its operations and changes in accumulated operating surplus, 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, 2017 and 2016**

| | 2017 $ | 2016 $ |
|---|---|---|
| **Assets** | | |
| **Cash and cash equivalents** | 12,607,854 | 7,651,779 |
| **Marketable securities** (note 5) | 88,744,639 | 85,010,689 |
| **Accounts receivable** (note 4) | 346,971 | 22,822 |
| **Ontario Venture Capital Fund LP (OVCF)** (note 6) | 66,308,481 | 61,519,631 |
| **Ontario Emerging Technologies Fund (OETF)** (notes 7 and 11) | 42,372,654 | 43,731,441 |
| **Northleaf Venture Catalyst Fund LP (NVCF)** (note 8) | 50,000,000 | 30,069,727 |
| **ScaleUP Venture Fund I, LP** (note 9) | 4,250,000 | - |
| | 264,630,599 | 228,006,089 |
| **Liabilities** | | |
| **Accounts payable and accrued liabilities** (note 14) | 278,443 | 221,177 |
| **Accumulated surplus** | 264,352,156 | 227,784,912 |
| **Net Assets** | 264,352,156 | 227,784,912 |
| **Accumulated surplus comprises** | | |
| Accumulated operating surplus | 263,791,514 | 226,829,545 |
| Accumulated remeasurement gains | 560,642 | 955,367 |
| | 264,352,156 | 227,784,912 |

**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, 2017 and 2016**

| | 2017 $ | 2016 $ |
|---|---|---|
| **Revenues** | | |
| Funding and transfer payments from the Province of Ontario | | |
| OETF (note 7) | 7,800,000 | 6,000,000 |
| SUVF (note 9) | 25,000,000 | - |
| Interest income | 612,227 | 876,362 |
| Investment income on OETF portfolio investments | 1,318,977 | 109,794 |
| Investment income on distribution from OVCF | - | 4,082 |
| Investment income on distribution from NVCF | - | 15,003 |
| Realized capital gain on OETF investments | 655,767 | 235,578 |
| Capital gain on distribution from OVCF | 5,121,691 | 869,895 |
| | 40,508,662 | 8,110,714 |
| **Expenditures** | | |
| Reimbursements to the Ministry of Research, Innovation and Science (note 14) | 874,424 | 851,236 |
| Cash management fees (note 10) | 28,450 | 38,261 |
| Professional services fees (note 10) | 398,845 | 377,138 |
| Board and committee member expenses | 7,159 | 13,570 |
| Foreign exchange (gain) loss (note 3) | (27,995) | 14,573 |
| Impairment of OETF portfolio investments (note 13) | 2,265,810 | 21,406,237 |
| | 3,546,693 | 22,701,015 |
| **Operating surplus (deficit)** | 36,961,969 | (14,590,301) |
| **Accumulated operating surplus - Beginning of year** | 226,829,545 | 241,419,846 |
| **Accumulated operating surplus - End of year** | 263,791,514 | 226,829,545 |

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, 2017 and 2016**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Accumulated remeasurement gains - Beginning of year** | 955,367 | 1,466,892 |
| Unrealized gains (losses) attributable to | | |
| Foreign exchange | (813,432) | 273,512 |
| Investments | 418,707 | (785,037) |
| | (394,725) | (511,525) |
| **Accumulated remeasurement gains - End of year** | 560,642 | 955,367 |

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, 2017 and 2016**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Net assets - Beginning of year** | 227,784,912 | 242,886,738 |
| Operating (deficit) surplus | 36,961,969 | (14,590,301) |
| Net remeasurement losses | (394,725) | (511,525) |
| Increase (decrease) in net assets | 36,567,244 | (15,101,826) |
| **Net assets - End of year** | 264,352,156 | 227,784,912 |

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, 2017 and 2016**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Increase (decrease) in net assets | 36,567,244 | (15,101,826) |
| Remeasurement losses | 394,725 | 511,525 |
| Realized gains on sale of OETF investments | (655,767) | (235,578) |
| Realized gains on sale of OVCF investments | (5,121,691) | (869,895) |
| Impairment of OETF portfolio investments | 2,265,810 | 21,406,237 |
| Changes in non-cash operating balances | | |
| (Increase) decrease in accounts receivable | (324,149) | 9,992,255 |
| Increase in accounts payable and accrued liabilities | 57,262 | (60,150) |
| | 33,183,434 | 15,642,568 |
| **Investing activities** | | |
| Proceeds from disposal and redemptions of marketable securities | 142,418,283 | 213,163,619 |
| Purchase of marketable securities | (146,185,925) | (205,754,435) |
| Purchase of investments in OVCF | (6,466,594) | (7,703,835) |
| Proceeds from investments in OVCF | 5,121,691 | 869,895 |
| Return of capital from OVCF | 1,677,744 | 1,230,636 |
| Purchase of investments in NVCF | (19,930,273) | (12,330,329) |
| Purchase of investments in SUVF | (4,250,000) | - |
| Sale of investments in OETF | 5,343,367 | 3,299,215 |
| Purchase of investments in OETF | (5,955,652) | (5,007,598) |
| | (28,227,359) | (12,232,832) |
| **Increase in cash and cash equivalents during the year** | 4,956,075 | 3,409,736 |
| **Cash and cash equivalents - Beginning of year** | 7,651,779 | 4,242,043 |
| **Cash and cash equivalents - End of year** | 12,607,854 | 7,651,779 |

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

# Ontario Capital Growth Corporation

Notes to Financial Statements

**March 31, 2017 and 2016**

## 1 Description of business

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 at February 1, 2009 as an agency of the Ministry of Research and Innovation (MRI). In May 2016, MRI was reorganized as the Ministry of Research, Innovation and Science (collectively the Ministry). As at March 31, 2017, OCGC is responsible to the Minister of Research, Innovation and Science (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:

- 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;
- to receive, hold and deal with property, whether real or personal, in connection with the objects described in Section 4(a); and
- 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 ontarian 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:

- the Government of Canada;
- the Corporation; and
- 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, 2017 and 2016**

c) It invests in one or both of the following:

- other funds that supply venture capital to companies; and
- 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. Through a number of subsequent fund closings, as at July 2015, the commitment was increased to a total of $50 million.

In May 2014, the Government of Ontario announced a new Life Sciences Seed Venture Capital Fund (LSSVCF) of up to $30 million. The Corporation will seek to establish the fund in partnership with hospital foundations and the private sector to help finance early-stage Ontario life sciences companies.

In February 2017, as part of a Government of Ontario initiative to establish a new venture capital fund to help Ontario-based companies grow their operations to the point of attracting follow-on financing, the Corporation made an investment commitment of $25 million to the ScaleUP Venture Fund I, LP alongside private sector investors.

As required by the Agencies and Appointments 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, the Ministry 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), the Northleaf Venture Catalyst Fund LP (NVCF) and the ScaleUP Venture Fund I, LP (SUVF). 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 makes 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: (i) clean technology; (ii) digital media and information and communications technologies; and (iii) life sciences and advanced health technologies.

# Ontario Capital Growth Corporation

Notes to Financial Statements

**March 31, 2017 and 2016**

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.

SUVF is an initiative between the Government of Ontario and private sector investors. It is structured as a direct investment fund that invests primarily in promising Ontario-based start-ups that have shown initial market success and demonstrate strong growth potential, but require new investment financing and mentorship to expand their operations.

OCGC claims exemption from federal and provincial income taxes under paragraph 149(1)(d) of the Income Tax Act (Canada). As a provincial entity listed in Schedule A of the Canada-Ontario Reciprocal Taxation Agreement, OCGC can claim government rebates of the Harmonized Sales Tax (HST). Under the pay-and-rebate model, 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.

## 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.

### Investments

Investments in securities that are traded 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 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 Capital Growth Corporation

Notes to Financial Statements

**March 31, 2017 and 2016**

### 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. The OVCF investment is subsequently tested for impairment on each statement of financial position date and any losses due to impairment are recognized in the statement 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.

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

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 statement 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 the fair value of the investment is not readily determinable. The NVCF investment is subsequently tested for impairment on each statement of financial position date and any losses due to impairment will be recognized in the statement of operations and changes in accumulated operating surplus on that date.

### ScaleUP Venture Fund I, LP (SUVF)

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

**Ontario Capital Growth Corporation**
Notes to Financial Statements
**March 31, 2017 and 2016**

**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, NVCF and SUVF are not readily determinable and have been recorded at cost. OVCF, NVCF and SUVF 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 an other 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 loss 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 represents fair value at the time of acquisition. Investments in OETF 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 these dates is recognized in the statements of remeasurement gains and losses until the investment is derecognized in which the gain or loss is recognized in the statement of operations and changes in accumulated operating surplus. All other investments in OETF 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 category, value is first determined by referencing a quoted price in an active market, or in the 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. Interest income is recorded on an accrual basis in accordance with the terms of the purchase agreement and to the extent that such amounts are expected to be collected.

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.

Distributions from OVCF, NVCF and SUVF 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.

# Ontario Capital Growth Corporation

Notes to Financial Statements

**March 31, 2017 and 2016**

OETF, SUVF and LSSVCF funding received represents monies transferred from the Ministry to the Corporation, as described in notes 7, 9 and 15, respectively. The funding is recognized when received.

**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 Agencies and Appointments Directive of Management Board of Cabinet (February 2015). In 2015, the Canada Revenue Agency (CRA) ruled that part-time per diem appointees (PTPDAs) are to be treated as employees for tax purposes only. This means that HST may not be paid for per diem services, since CRA does not consider appointee services (a) to be taxable supply; and (b) Employment Insurance is applicable. PTPDAs cannot participate in the Canada Pension Plan with respect to their PTPDA services.

Reimbursements to the Ministry represent direct OCGC expenses paid by the Ministry 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, investments in SUVF 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.

**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 those 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 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, the Ministry 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 $4,037,509 to the US dollar as at March 31, 2017 (2016 - $5,009,838). A 5% increase or decrease of the Canadian dollar against the US dollar as at March 31, 2017 would result in a decrease or increase of $201,875 (2016 - $250,492) on the statements of remeasurement gains and losses 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 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 fluctuations for marketable securities are minimal due to the investments being held for a term of three years or less to match the OVCF, NVCF and SUVF drawdowns projected by their respective fund managers. The impact of interest rate fluctuations on OETF investments are considered minimal as these instruments are primarily held for purposes of capital appreciation.

# Ontario Capital Growth Corporation

Notes to Financial Statements

**March 31, 2017 and 2016**

**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, 2017, if the value of the investments in OVCF, NVCF, SUVF and OETF had increased or decreased by 5% and all other variables held constant, the value of the investments would have changed by $8,146,557 (2016 - $6,766,040). Investments made through OVCF, NVCF, SUVF 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 statement of financial position date; 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, 2017, amounted to $10,209 (2016 - $21,935).

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. Accounts receivable, as a result of dispositions of OETF investments made in 2017, amounted to $336,762 (2016 - $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.

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Par value $ | Fair value $ | Par value $ | Fair value $ |
| Province of Ontario treasury bills, due dates ranging from May 3, 2017 to March 21, 2018, average coupon rate of 0.00% | 55,183,000 | 54,920,796 | 56,134,000 | 56,047,259 |
| Province of Ontario treasury bills, due dates ranging from May 10, 2017 to July 26, 2017, average coupon rate of 0.00% | 33,871,000 | 33,823,843 | 29,000,000 | 28,963,430 |
| | 89,054,000 | 88,744,639 | 85,134,000 | 85,010,689 |

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, 2017, a change in interest rates of 1.0% would result in an impact of $887,456 (2016 - $850,107) 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 OVCF general partner. As OVCF is not traded in an active market, 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, 2017, the aggregate OETF transfer payments received from the Ministry were $7,800,000 (2016 - $6,000,000).

**Ontario Capital Growth Corporation**
Notes to Financial Statements
**March 31, 2017 and 2016**

## 8 Northleaf Venture Catalyst Fund LP (NVCF)

In January 2014, the NVCF was established with an initial investment commitment of $36.25 million from the Ontario Capital Growth Corporation. As at March 31, 2016, OCGC had increased its commitment to a final total of $50 million. NVCF is a $300 million joint initiative of the Government of Ontario, Government of Canada and the private sector, formed to invest primarily in Canadian venture capital funds that support innovative, high potential companies.

The investment in NVCF is carried at cost, based on the capital calls net of any return of recallable 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.

## 9 ScaleUP Venture Fund I, LP (SUVF)

In February 2017, the Ontario Capital Growth Corporation made an investment commitment of $25 million to the SUVF. SUVF is a joint initiative of the Government of Ontario and the private sector, formed to invest primarily in promising Ontario-based start-ups that have shown initial market success and demonstrate strong growth potential, but require new investment financing and mentorship to expand their operations. The total fund size is $70.25 million as at March 31, 2017.

The investment in SUVF is carried at cost, based on the capital calls net of any return of recallable capital made by the SUVF general partner. As SUVF is not traded in an active market, the fair value of the investment is not readily determinable.

## 10 Contractual commitments

OCGC has the following contractual commitments:

- In accordance with a financial service agreement between the 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.

- Pursuant to the OVCF limited partnership agreement, OCGC is committed to making capital contributions on notice of capital calls. As at March 31, 2017, the total uncalled commitment is $21,825,537 (2016 - $27,675,537) to be drawn down over the remaining years of the limited partnership.

- Pursuant to the NVCF limited partnership agreement, OCGC is committed to making capital contributions on notice of capital calls. As at March 31, 2017, there is no further uncalled commitment (2016 - $19,930,273) to be drawn over the remaining years of the limited partnership.

- Pursuant to the SUVF limited partnership agreement, OCGC is committed to making capital contributions on notice of capital calls. As at March 31, 2017, the total uncalled commitment is $20,750,000 (2016 - $nil) to be drawn down over the remaining years of the limited partnership.

## Ontario Capital Growth Corporation

Notes to Financial Statements
**March 31, 2017 and 2016**

- 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.

- In accordance with the contract between LP Analyst and OCGC, LP Analyst provides investment consulting services including sourcing strategy, conducts due diligence services and activities for potential new fund investments, provides business advice to support negotiation and undertakes portfolio monitoring and reporting. OCGC pays both fixed and hourly rates for these services and activities, respectively.

- 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.

- In accordance with the contract between Weiler & Company and OCGC, Weiler & Company performs accounting functions relating to the operations of OCGC. OCGC pays an hourly rate for these services.

### 11 Investments in OETF

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

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Acquisition cost* $ | Carrying value $ | Contingent** $ | Acquisition cost* $ | Carrying value $ | Contingent** $ |
| CAD investments | 45,081,492 | 39,064,467 | 338,274 | 45,168,706 | 37,643,673 | 1,938,275 |
| USD investments | 1,413,160 | 3,308,187 | - | 6,314,792 | 6,087,768 | - |
| | 46,494,652 | 42,372,654 | 338,274 | 51,483,498 | 43,731,441 | 1,938,275 |

* Represents historical cost net of investments exited and investments written off to $nil.
** 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, 2017, the OETF investment portfolio consisted of investments in 11 different companies, ranging from 0.19% to 4.40% of net assets. The percentage calculations exclude impaired investments in companies with a nominal or $nil carrying value.

### 12 Income on investment in funds

During the year ended March 31, 2017, the Corporation recognized $1,318,977 (2016 - $109,794) of investment income in funds.

# Ontario Capital Growth Corporation

Notes to Financial Statements

**March 31, 2017 and 2016**

## 13 Impairment of OETF investments

For the year ended March 31, 2017, impairment charges of $2,265,810 (2016 - $21,406,237) in OETF investments were identified by management and were recognized in the statements of operations and changes in accumulated operating surplus.

## 14 Accounts payable

The Corporation and the Ministry carry out their respective operations on a shared cost basis. The Corporation reimburses the Ministry for certain expenses incurred on its behalf. These expenses may include but are not limited to staff salaries, benefits, information technology allocations per staff member, accommodations, 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 the Ministry, and approval of the extent and scope of the Ministry services to be provided. For the year ended March 31, 2017, the Corporation will seek certification from the Ministry 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 the Ministry under accounts payable based on estimates provided by the Ministry that can be independently verified by the Corporation. Reimbursement payable in arrears as at March 31, 2017 amounted to $90,628 (2016 - $93,125).

The remaining balance as at March 31, 2017 for $$187,815 (2016 - $128,052) represents payables in arrears to miscellaneous service providers.

## 15 Life Sciences Seed Venture Capital Fund (LSSVCF)

On March 27, 2015, the Ministry entered into the LSSVCF transfer payment agreement with OCGC to establish and invest in a new Ontario life sciences seed venture capital fund. The size of the proposed fund is up to $30 million with capital commitments from the Government of Ontario, hospital foundations and the private sector.

As at June 30, 2015, the Corporation met the terms and conditions of the LSSVCF transfer payment agreement for the Ministry to disburse the entire $10 million funding obligation which was subsequently received.

As at March 31, 2017, the LSSVCF initiative remains in development.

## 16 Non-financial assets

The Corporation does not have any tangible capital assets or prepaid expenses. An inventory of office supplies is held for use and expensed in the year in which they are purchased. The total cost of these supplies is not material to the financial statements and they are expected to be used up in a period of less than one year from their purchase date.

Ontario Clean Water Agency

# 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 and Climate Change 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.

**Nevin McKeown**
Acting President and Chief Executive Officer

**Prem Rooplal**
Vice President,
Finance and Corporate Services

Toronto, Ontario
April 6, 2017

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 Climate Change,
and the Minister of Finance

I have audited the accompanying financial statements of the Ontario Clean Water Agency, which comprise the statement of financial position as at December 31, 2016 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, 2016 and the results of its operations, change in its net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
April 6, 2017

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

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# Statement of Financial Position

As at December 31, 2016

*(in thousands of dollars)*

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and short-term investments (note 3a) | **42,791** | 43,418 |
| Accounts receivable, net | | |
| Municipalities and other customers (note 3b) | **25,569** | 22,890 |
| Ministry of the Environment and Climate Change | **16** | 19 |
| Harmonized sales tax receivable | **2,258** | 1,995 |
| Prepaid Expenses | **4,269** | 506 |
| Current portion of investments receivable for water and wastewater facilities (note 2) | **579** | 612 |
| | **75,482** | 69,440 |
| **Non-current assets:** | | |
| Investments in term deposits (note 3a) | **31,771** | 28,366 |
| Investments receivable for water and wastewater facilities (note 2) | **283** | 856 |
| Loan receivable - Ontario Infrastructure and Lands Corporation (note 3c) | **120,000** | 120,000 |
| Tangible Capital Assets, net (note 4) | **7,360** | 8,721 |
| | **159,414** | 157,943 |
| **Total Assets** | **234,896** | 227,383 |

# Statement of Financial Position

## As at December 31, 2016

*(in thousands of dollars)*

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Liabilities and Net Assets** | | |
| **Current liabilities:** | | |
| Accounts payable and accrued liabilities (note 6) | **21,152** | 18,094 |
| Current portion of employee future benefits (note 9a) | **3,998** | 4,757 |
| | **25,150** | 22,851 |
| **Long-term liabilities:** | | |
| Employee future benefits (note 9a) | **9,764** | 11,948 |
| **Net Assets** | **199,982** | 192,584 |
| Contingencies and Measurement Uncertainty (note 1e) | | |
| Total Liabilities and Net Assets | **234,896** | 227,383 |

*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, 2016

*(in thousands of dollars)*

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Utility Operations Revenues:** | | |
| Utility operations | 175,892 | 172,033 |
| Other Business | 2,020 | 2,463 |
| Total Operating Revenues | 177,912 | 174,496 |
| **Operating Expenses:** | | |
| Salaries and benefits (note 9a and note 9b) | 71,878 | 72,947 |
| Other operating expenses | 97,198 | 97,464 |
| Amortization of tangible capital assets | 2,656 | 2,930 |
| Total Operating Expenses | 171,732 | 173,341 |
| **Excess of revenue over expenses - Utility Operations** | 6,180 | 1,155 |
| **Interest from Investments and loans receivable** | 2,393 | 2,473 |
| **Excess of revenue over expenses** | 8,573 | 3,628 |
| **Net Assets, opening balance** | 192,584 | 188,998 |
| **Adjustment to Net Assets (note 7)** | (1,175) | (42) |
| **Net Assets, ending balance** | 199,982 | 192,584 |

*see accompanying notes to financial statements*

# Statement of Cash Flows

## For the year ended December 31, 2016

*(in thousands of dollars)*

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| **Cash Provided by (used for) Operating Activities** | | |
| Excess of revenue over expense-Utility Operations | 6180 | 1,155 |
| Items Not Affecting Cash | | |
| Amortization of Tangible Capital Assets | 2,656 | 2,930 |
| Increase (decrease) in future employee benefits expense | (2,184) | 1,140 |
| | 6,652 | 5,225 |
| Changes in non-cash operating working capital | | |
| Accounts Receivable | (2,939) | (2,149) |
| Prepaid Expenses | (3,763) | (154) |
| Accounts Payable and Accrued Liabilities | 3,058 | 1,788 |
| Legislated Severance | (759) | (753) |
| | (4,403) | (1,268) |
| **Net Cash Flows from operating activities** | 2,249 | 3,957 |
| **Cash From Investing Activities** | | |
| Interest | 2,393 | 2,473 |
| Principal Repaid on Loans | 606 | 792 |
| Increase in non-current Term Deposits | (3,405) | (6,539) |
| **Net cash flows from investing activities** | (406) | (3,274) |
| **Cash Used in Capital Activities** | | |
| Tangible Capital Assets Acquired | (1,295) | (1,817) |
| **Cash Used in Financing Activities** | | |
| Changes in Net Assets | (1,175) | (42) |
| **Decrease in Cash and Short-Term Investments** | (627) | (1,176) |
| **Cash and Short-Term Investments, Opening Balance** | 43,418 | 44,594 |
| **Cash and Short-Term Investments, Closing Balance** | 42,791 | 43,418 |

# Notes to Financial Statements

December 31, 2016

## 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 Agency has chosen to use the standards for not-for-profit organizations that include the 4200 series sections. 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, 2016

## 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 of 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, 2016

## 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. Significant items subject to such estimates and assumptions include the amortization expense, accrued liabilities and employee future benefits. Actual results could differ from management's best estimates as additional information becomes available in the future.

## 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 5.97% and 9.63%. Scheduled principal repayments of the investments are as follows:

| *(12 Months Beginning January)* | *(in thousands of dollars)* |
|---|---|
| 2017 | 579 |
| 2018 | 228 |
| 2019 | 26 |
| 2020 | 29 |
| | 862 |
| Less: Current portion | (579) |
| | 283 |

# Notes to Financial Statements

December 31, 2016

## 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 Investments**

The Agency has $74.6 million invested in bank balances, term deposits and a bond portfolio as follows:

| | *(in thousands of dollars)* |
|---|---|
| Bank Balances | 9,085 |
| Short term bonds (coupon rates 0.75% to 4.20%) | 5,306 |
| Term deposits due within a year (Interest rates 1.70%-2.01%) | 28,400 |
| Cash and Short-Term Investments | 42,791 |
| Term deposits due within two years (Interest rates 1.75%-1.91%) | 31,771 |
| | 74,562 |

The fair value of the bank balances and term deposits approximates carrying value and the fair value of the short-term bond portfolio is $5.3 million.

# Notes to Financial Statements

December 31, 2016

## 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:

| | *(in thousands of dollars)* |
|---|---|
| 0-60 days | 24,242 |
| 61-90 days | 259 |
| 91-120 days | 231 |
| 121-150 days | 131 |
| More Than 151 days | 706 |
| Total Net Accounts Receivable Municipalities and Other Customers | 25,569 |

An account receivable is considered to be impaired when dispute resolution has failed and the account is forwarded to legal counsel for further action. At December 31, 2016, two accounts were considered impaired. The outstanding balances totaled to $0.8 million (2015 - $0.1 million). Net Accounts Receivable includes an Allowance for Doubtful Accounts which is based on a provision for 25% of Accounts Receivable aged greater than 60 Days. The Agency believes that this policy mitigates the risk of incorrect provision.

# Notes to Financial Statements

December 31, 2016

## 3. FINANCIAL INSTRUMENTS (cont'd)

### (c) Cash Flow Risk

The Agency has extended a $120 million loan to Ontario Infrastructure and Lands Corporation which matures on March 1, 2023 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, 2016** | Net December 31, 2015 |
|---|---|---|---|---|
| Computer Software | 8,180 | 3,945 | **4,235** | 4,875 |
| Information Systems | 5,740 | 4,755 | **985** | 1,446 |
| Furniture and Fixtures | 219 | 152 | **67** | 86 |
| Automotive Equipment | 4,707 | 4,514 | **193** | 379 |
| Computer Hardware | 4,886 | 3,558 | **1,328** | 1,395 |
| Machinery and Equipment | 1,086 | 703 | **383** | 351 |
| Leasehold Improvements | 417 | 248 | **169** | 189 |
| | 25,235 | 17,875 | **7,360** | 8,721 |

The Board has approved capital and re-engineering expenditures of up to $14.7 million from fiscal 2012 to 2018 to modernize the Agency's operating and maintenance information technology infrastructure.

# Notes to Financial Statements

December 31, 2016

## 5. LEASE COMMITMENTS

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

| | *(in thousands of dollars)* |
|---|---|
| 2017 | 2,820 |
| 2018 | 2,516 |
| 2019 | 2,034 |
| 2020 | 1,018 |
| 2021 | 210 |
| | 8,598 |

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in the accounts payable and accrued liabilities is a provision for restructuring costs of $1.0 million (2015 - $2.5 million) for severance costs relating to a reorganization within the Agency. The amount charged to the income statement in 2016 was $0.3 million (2015 - $0.2 million) and is included in salaries and benefits expenses in the Statement of Operations and Changes in Net Assets.

## 7. 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.

In 2014, the Agency was named in an action for soil contamination clean up due to a diesel spill the circumstances of which occurred prior to the establishment of the Agency. In 2016 the claim was settled out of court for $1.2 million and the amount has been recorded as an adjustment to net assets.

# Notes to Financial Statements

December 31, 2016

## 8. CONTINGENCIES

### (a) Contingent Liabilities

The Agency is involved in various legal claims and other unresolved matters arising in the normal course of business, the outcome of which cannot be determined at this time. Most of the legal 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.

### (b) Letters of Credit

The Agency has lines of credit with the Royal Bank of Canada for $15 million. As of December 31, 2016, $11.3 million of these lines of credit have been used to provide letters of credit to municipalities in accordance with the terms of their operations and maintenance agreements.

## 9. 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 $13.8 million (2015 - $16.7 million) of which $4.0 million (2015 - $4.8 million) has been classified as current liability. The amount charged to the income statement in 2016 was $1.4 million (2015 - $1.1 million) and is included in salaries and benefits expense in the Statement of Operations and Changes in Net Assets.

During the year the accrued employee benefits obligation was reduced by $1.5 million (2015 – nil) due to a curtailment resulting from changes under the Public Service Act of Ontario. Prior to the curtailment, the decrease in the obligation was $0.4 million (2015 - $0.7 million)

Included in employee future benefits obligation is an estimated workers compensation obligation in the amount of $3.1 million (2015 - $2.6 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, 2015.

It is management’s opinion that the balance at December 31, 2016 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, 2016

## 9. 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 $4.6 million (2015 – $4.5 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 $3.0 million (2015 - $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 $1.6 million (2015 - $1.7 million) from the Ministry of the Environment and Climate Change for water and wastewater treatment services OCWA has provided. The services were provided at competitive rates similar to those of other OCWA clients

(iii) The Agency received revenue of $0.1 million (2015 - $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.

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# The 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 22, 2017.

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:

L de Wilde

Lisa de Wilde
Chief Executive Officer

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale 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, 2017 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, 2017 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.

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Toronto, Ontario
June 22, 2017

Susan Klein, CPA, CA, LPA
Assistant Auditor General

tvo **The Ontario Educational Communications Authority**
Financial Statements for the year ended March 31, 2017

# Statement of Financial Position

**As of March 31, 2017**

| ($000s) | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents (note 3) | 13,542 | 12,964 |
| Short term investments (note 3) | 8,796 | 6,260 |
| Accounts receivable (note 3) | 1,051 | 1,286 |
| Prepaid expenses | 1,123 | 1,374 |
| Inventories | 150 | 148 |
| | **24,662** | **22,032** |
| Broadcast rights and production costs (note 7) | **20,653** | **21,221** |
| Investments held for Capital Renewal (note 5) | **5,112** | **5,329** |
| Net capital assets (note 6) | **13,983** | **12,428** |
| **Total Assets** | **64,410** | **61,010** |
| **Liabilities and Net Assets** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 9,443 | 8,416 |
| Deferred revenue (note 8) | 4,981 | 2,624 |
| | **14,424** | **11,040** |
| Deferred capital contributions (note 9) | 8,857 | 9,099 |
| Employee future benefits (note 4) | 20,973 | 20,380 |
| Asset retirement obligation (note 6) | 196 | 188 |
| | **30,026** | **29,667** |
| **Net Assets** | | |
| Invested in broadcast rights and production costs | 20,653 | 21,221 |
| Invested in capital assets | 9,870 | 8,414 |
| Internally restricted (note 13) | 354 | 1,726 |
| Unrestricted | (10,917) | (11,058) |
| | **19,960** | **20,303** |
| **Total Liabilities and Net Assets** | **64,410** | **61,010** |

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

On behalf of the Board:

Peter O'Brian

**Chair**

**Director**

tvo **The Ontario Educational Communications Authority**
Financial Statements for the year ended March 31, 2017

# Statement of Operations

**For the year ended March 31, 2017**

| ($000s) | 2017 | 2016 |
|---|---|---|
| **Revenues** | | |
| Government operating grants (note 10) | 40,045 | 39,772 |
| Independent Learning Centre (note 16) | 12,531 | 12,907 |
| Other earned revenue (note 12) | 8,720 | 7,139 |
| Bequest (note 13) | 144 | 444 |
| Government and corporate project funding (note 11) | 1,741 | 968 |
| Amortization of deferred capital contributions (note 9) | 740 | 801 |
| | **63,921** | **62,031** |
| **Expenses** | | |
| Content and programming | 18,686 | 18,786 |
| Technical and production support services | 17,042 | 15,704 |
| Independent Learning Centre (note 16) | 12,512 | 11,366 |
| Management and general expenses | 6,740 | 7,244 |
| Employee future benefits (note 4) | 3,493 | 3,040 |
| Cost of other earned revenue (note 12) | 3,165 | 2,853 |
| Amortization of capital assets and accretion expense (note 6) | 2,626 | 2,504 |
| | **64,264** | **61,497** |
| **(Deficiency) / Excess of revenues over expenses** | **(343)** | **534** |

See accompanying Notes to Financial Statements.

tvo **The Ontario Educational Communications Authority**
Financial Statements for the year ended March 31, 2017

# Statement of Changes in Net Assets

**For the year ended March 31, 2017**

| ($000s) | 2017 | | | | |
|---|---|---|---|---|---|
| | Invested in Broadcast Rights and Production Costs | Invested in Capital Assets | Internally Restricted | Unrestricted | Total |
| **Balance, beginning of year** | **21,221** | **8,414** | **1,726** | **(11,058)** | **20,303** |
| Excess/(deficiency) of revenues over expenses | (7,251) | (1,893) | - | 8,801 | (343) |
| Invested in assets during the year | 6,683 | 3,349 | - | (10,032) | - |
| Inter-fund transfers (note 13) | - | - | (1,372) | 1,372 | - |
| **Balance, end of year** | **20,653** | **9,870** | **354** | **(10,917)** | **19,960** |

| ($000s) | 2016 | | | | |
|---|---|---|---|---|---|
| | Invested in Broadcast Rights and Production Costs | Invested in Capital Assets | Internally Restricted | Unrestricted | Total |
| **Balance, beginning of year** | **21,061** | **6,872** | **1,916** | **(10,080)** | **19,769** |
| Excess/(deficiency) of revenues over expenses | (7,379) | (1,873) | - | 9,786 | 534 |
| Invested in assets during the year | 7,539 | 3,415 | - | (10,954) | - |
| Inter-fund transfers (note 13) | - | - | (190) | 190 | - |
| **Balance, end of year** | **21,221** | **8,414** | **1,726** | **(11,058)** | **20,303** |

See accompanying Notes to Financial Statements.

tvo **The Ontario Educational Communications Authority**
Financial Statements for the year ended March 31, 2017

# Statement of Cash Flows

**For the year ended March 31, 2017**

| ($000s) | 2017 | 2016 |
|---|---|---|
| **Operating Activities** | | |
| (Deficiency) / excess of revenues over expenses | (343) | 534 |
| Add/(deduct) non-cash items: | | |
| Amortization of capital assets | 2,618 | 2,496 |
| Accretion expense (note 6) | 8 | 8 |
| Amortization of deferred capital contributions | (740) | (801) |
| Amortization of broadcast rights and production costs | 7,251 | 7,380 |
| Employee future benefits expense | 3,059 | 2,634 |
| Loss on disposal of capital assets | 10 | 170 |
| Net changes in non-cash working capital: | | |
| Accounts receivable | 235 | 124 |
| Inventories | (2) | - |
| Prepaid expenses | 251 | (331) |
| Deferred revenue | 2,357 | (948) |
| Accounts payable and accrued liabilities | 1,027 | (2,001) |
| Contributions to employee benefit plans | (2,466) | (2,727) |
| **Cash provided by operating activities** | **13,265** | **6,538** |
| **Capital transactions** | | |
| Broadcast rights additions | (6,683) | (7,539) |
| Capital asset additions | (4,183) | (4,050) |
| Proceeds from disposal of capital assets | - | 23 |
| **Cash applied to capital transactions** | **(10,866)** | **(11,566)** |
| **Investing and financing transactions** | | |
| Increase short term investments | (2,536) | (1,042) |
| Current year's deferred capital contributions | 715 | 556 |
| **Cash provided by investing and financing activities** | **(1,821)** | **(486)** |
| **Net increase (decrease) in cash position during the year** | **579** | **(5,514)** |
| **Cash and cash equivalents, beginning of year** | **12,964** | **18,478** |
| **Cash and cash equivalents, end of year** | **13,542** | **12,964** |

See accompanying Notes to Financial Statements.

tvo **The Ontario Educational Communications Authority**
Financial Statements for the year ended March 31, 2017

# Notes to Financial Statements

**For the year ended March 31, 2017**

## 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 (the "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, 2015 to August 31, 2022.

The Authority is a registered charitable organization which may issue donation receipts for income tax purposes. 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) Cash and Cash Equivalents

Cash includes balances with banks, net of any overdrafts. Cash equivalents consist of short-term, high-grade Canadian dollar investments maturing within 90 days.

### (c) 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.

### (d) 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 | Amortization Period |
|---|---|
| Building | 30 years |
| Computer Equipment | 5 years |
| Computer Software | 3-5 years |
| In-House Technical Equipment | 7 years |
| Leasehold Improvements | 5 years |
| Office Equipment | 10 years |
| Office Furniture and Fixtures | 15 years |
| Transmitters | 17 years |
| Transmitters - Asset Retirement Obligation | 17 years |
| Transmitter Monitoring Equipment | 7 years |
| Vehicles | 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.

Work in progress is not amortized until the completed assets are placed into operation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (e) 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") and registration fees for General Education Development ("GED") are recognized as revenue at the time of enrolment.

### (f) Employee Future Benefits

The Authority accrues its obligations under employee defined benefit pension plans and the related costs, net of plan assets. The following accounting 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 and 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.

### (g) 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

tvo **The Ontario Educational Communications Authority**
Financial Statements for the year ended March 31, 2017

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**(h) Financial Instruments**

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

- Cash and cash equivalents, including investments 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.

**(i) 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.

**(j) 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 employee future benefit obligations and useful life of capital assets and broadcast rights. Actual results could differ from those estimates.

**(k) 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.

**(l) 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 1.0% (2016 – 1.2%). The cash equivalent amount is $13,486,000 (2016 - $13,474,000)

**Short term investments**

The Authority's short term investments consist of high-grade Canadian dollar investments that have a maturity date greater than 90 days. All the investments were purchased with a term of 1 year or less.

## The Ontario Educational Communications Authority

Financial Statements for the year ended March 31, 2017

### 3. FINANCIAL INSTRUMENTS (CONT'D)

**Accounts receivable**

| ($000s) | 2017 | 2016 |
|---|---|---|
| ILC earned revenue, donations, sales and licensing, tower rentals and transmitter maintenance fees | 581 | 745 |
| HST rebate | 436 | 541 |
| Others | 34 | - |
| | **1,051** | **1,286** |

**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 $1.0 million (2016 – $1.0 million). The line of credit is unsecured and bears interest at the bank's prime lending rate. As at March 31, 2017, no amount (2016 – $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. 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, 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 approximates fair value and as a result 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 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.

tvo **The Ontario Educational Communications Authority**
Financial Statements for the year ended March 31, 2017

### 4. EMPLOYEE FUTURE BENEFITS (CONT'D)

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

**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 performed as of January 1, 2014. The next valuation for funding purposes will be performed as of January 1, 2017 and applied for the 2018 fiscal year.

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

| | Registered Pension Plans | | Supplementary Retirement Plan | | Post-employment Benefit Plan | | Total | |
|---|---|---|---|---|---|---|---|---|
| **($000s)** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **Plan deficit as of January 1:** | | | | | | | | |
| Accrued benefit obligation | 99,892 | 97,600 | 1,551 | 1,358 | 12,541 | 12,558 | 113,984 | 111,516 |
| Fair value of plan assets | (99,862) | (95,018) | - | - | - | - | (99,862) | (95,018) |
| | 30 | 2,582 | 1,551 | 1,358 | 12,541 | 12,558 | 14,122 | 16,498 |
| Balance of unamortized actuarial (gains)/losses as of January 1 | 4,897 | 2,522 | 331 | 335 | 2,235 | 1,714 | 7,463 | 4,571 |
| Contributions – Jan 1 to Mar 31 | (558) | (558) | - | - | (54) | (131) | (612) | (689) |
| **Employee future benefits liability as at March 31** | **4,369** | **4,546** | **1,882** | **1,693** | **14,722** | **14,141** | **20,973** | **20,380** |

| | Registered Pension Plans | | Supplementary Retirement Plan | | Post-employment Benefit Plan | | Total | |
|---|---|---|---|---|---|---|---|---|
| **($000s)** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **Expenses for the year:** | | | | | | | | |
| Defined benefit plan: | | | | | | | | |
| Service cost (employer portion) | 2,126 | 2,083 | 193 | 203 | 501 | 406 | 2,820 | 2,692 |
| Amortization of actuarial (gains)/losses | (277) | (506) | (41) | (30) | (170) | (91) | (488) | (627) |
| Interest cost on accrued benefit obligation | 5,593 | 5,482 | 55 | 49 | 463 | 455 | 6,111 | 5,986 |
| Expected return on plan assets | (5,384) | (5,417) | - | - | - | - | (5,384) | (5,417) |
| Plan amendment costs incurred | - | - | - | - | - | - | - | - |
| Total defined benefit expense | 2,058 | 1,642 | 207 | 222 | 794 | 770 | 3,059 | 2,634 |
| Defined contribution plan expense | 434 | 406 | - | - | - | - | 434 | 406 |
| **Total expenses** | **2,492** | **2,048** | **207** | **222** | **794** | **770** | **3,493** | **3,040** |
| **Contributions made to the plans:** | | | | | | | | |
| Pension plan contributions - Authority | 2,674 | 2,589 | 18 | 10 | 291 | - | 2,983 | 2,599 |
| Pension plan contributions - employees | 1,018 | 960 | - | - | - | - | 1,018 | 960 |
| **Payments made from all the plans as of January 1:** | | | | | | | | |
| Pension benefits paid | 4,782 | 4,681 | - | - | - | - | 4,782 | 4,681 |
| Termination benefits paid | 2,656 | 3,020 | - | - | - | - | 2,656 | 3,020 |

## The Ontario Educational Communications Authority
Financial Statements for the year ended March 31, 2017

### 4. EMPLOYEE FUTURE BENEFITS (CONT'D)

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 | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Discount rate to determine the accrued benefit obligation | 5.75% to 6.00% | 5.75% to 6.00% | 3.70% | 3.40% | 3.70% | 3.40% |
| Discount rate to determine the benefit cost | 5.75% to 6.00% | 5.75% to 6.00% | 3.70% | 3.40% | 3.70% | 3.60% |
| Expected investment return | 5.75% to 6.00% | 5.75% to 6.00% | N/A | N/A | N/A | N/A |
| Pension indexation | 2.25% | 2.25% | 2.25% | 2.25% | N/A | N/A |
| Salary rate increase | 2.00% yr 1, 2.50% thereafter | 2.00% yr 1, 2.50% thereafter | 2.00% yr 1, 2.50% thereafter | 2.00% yr 1, 2.50% thereafter | N/A | N/A |
| Health cost rate increase | N/A | N/A | N/A | N/A | 4.50% | 4.50% |
| Drug cost rate increase | N/A | N/A | N/A | N/A | 6.95% | 7.30% |
| Dental cost rate increase | N/A | N/A | N/A | N/A | 4.50% | 4.50% |
| Employee average remaining service lifetime (years) | 11 | 11 | 11 | 11 | 12 | 13 |

The drug 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 | |
|---|---|---|
| | **2017** | **2016** |
| **Asset category** | | |
| Equity securities | 55% | 53% |
| Debt securities | 39% | 41% |
| Real estate fund | 6% | 6% |

The actual investment return on pension plan assets was 8.05% in 2017 (2016 – 3.1%).

### 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 a 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 1.2% (2016 – 1.2%) during the fiscal year. The changes in the fund are as follows:

| **($000s)** | **2017** | **2016** |
|---|---|---|
| Balance, beginning of year | 5,329 | 5,268 |
| Purchase of capital assets | (273) | - |
| Interest earned | 56 | 61 |
| | **5,112** | **5,329** |

tvo **The Ontario Educational Communications Authority**
Financial Statements for the year ended March 31, 2017

## 6. CAPITAL ASSETS AND ASSET RETIREMENT OBLIGATION

### Capital Assets

Capital assets consist of the following:

| ($000s) | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Land | 186 | - | 186 | 186 | - | 186 |
| Buildings | 2,268 | 2,197 | 71 | 2,268 | 2,183 | 85 |
| Transmitters | 7,421 | 5,064 | 2,357 | 7,405 | 4,850 | 2,555 |
| Transmitters - asset retirement obligation | 557 | 463 | 94 | 557 | 455 | 102 |
| Transmitter monitoring equipment | 2,061 | 1,766 | 295 | 2,068 | 1,642 | 426 |
| In house technical equipment | 21,703 | 19,900 | 1,803 | 23,107 | 20,888 | 2,219 |
| Leasehold improvements | 9,299 | 8,706 | 593 | 9,248 | 8,545 | 703 |
| Computer equipment | 6,677 | 5,075 | 1,602 | 6,203 | 4,701 | 1,502 |
| Office furniture and fixtures | 2,065 | 1,460 | 605 | 2,062 | 1,339 | 723 |
| Office equipment | 905 | 899 | 6 | 975 | 949 | 26 |
| Vehicles | 317 | 223 | 94 | 298 | 225 | 73 |
| Computer software | 5,623 | 2,403 | 3,220 | 4,556 | 1,870 | 2,686 |
| Work-in-progress – software | 3,057 | - | 3,057 | 1,142 | - | 1,142 |
| **Total** | **62,139** | **48,156** | **13,983** | **60,075** | **47,647** | **12,428** |

Amortization expense for the year was $2,618,469 (2016 - $2,496,184) and is included in Amortization of capital assets and accretion expense in the Statement of Operations.

Work-in-progress constitutes web sites construction and gaming development that have not been launched.

### 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 (2016 – $316,000).

| ($000s) | 2017 | 2016 |
|---|---|---|
| Opening balance | 188 | 180 |
| Accretion expense | 8 | 8 |
| Closing balance | **196** | **188** |

## 7. BROADCAST RIGHTS AND PRODUCTION COSTS

Broadcast rights and production costs consist of the following:

| ($000s) | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Broadcast rights and completed productions | 65,318 | 47,843 | 17,475 | 59,549 | 40,593 | 18,956 |
| Work in progress | 3,178 | - | 3,178 | 2,265 | - | 2,265 |
| | **68,496** | **47,843** | **20,653** | **61,814** | **40,593** | **21,221** |

Amortization expense for the year was $7,250,625 (2016 – $7,379,844) and is included in Content and programming expense.

## The Ontario Educational Communications Authority
Financial Statements for the year ended March 31, 2017

### 8. DEFERRED REVENUE

| ($000s) | 2017 | 2016 |
|---|---|---|
| ILC – Ministry of Education grant and provincial project funding (note 16) | 2,637 | 1,944 |
| Funding for ILC Course Conversion deferred (note 11) | 1,056 | - |
| AODA project funding | (40) | 157 |
| Bequest (note 13) | 88 | 232 |
| Gift to be utilized for Local Hubs (note 13) | 861 | - |
| Transmitter tower rental and maintenance | 168 | 169 |
| Sponsorship revenue | 163 | 63 |
| Other | 48 | 59 |
| | **4,981** | **2,624** |

Expenditures related to the above deferrals, except for the bequest, have been budgeted for the 2018 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) | | | 2017 |
|---|---|---|---|
| | Unamortized Capital Contributions | Unspent Funds | Total |
| **Deferred capital contributions, beginning of year** | **3,769** | **5,330** | **9,099** |
| Capital Maintenance Fund | 273 | (273) | - |
| Master Control Room Ingest Upgrades | 46 | - | 46 |
| Agenda Studio Lighting Upgrade | 210 | - | 210 |
| Web Infrastructure | 187 | - | 187 |
| Interest earned | - | 55 | 55 |
| Amortization of deferred capital contributions to revenue | (740) | - | (740) |
| **Deferred capital contributions, end of year** | **3,745** | **5,112** | **8,857** |

| ($000s) | | | 2016 |
|---|---|---|---|
| | Unamortized Capital Contributions | Unspent Funds | Total |
| **Deferred capital contributions, beginning of year** | **4,014** | **5,269** | **9,283** |
| Capital assets funded by Ministry of Education grant: | | | |
| Special one-time capital grant | 282 | - | 282 |
| Project funding deferred from prior year | 274 | - | 274 |
| Interest earned | - | 61 | 61 |
| Amortization of deferred capital contributions to revenue | (801) | - | (801) |
| **Deferred capital contributions, end of year** | **3,769** | **5,330** | **9,099** |

tvo **The Ontario Educational Communications Authority**
Financial Statements for the year ended March 31, 2017

## 10. GOVERNMENT OPERATING GRANTS

| ($000s) | 2017 | 2016 |
|---|---|---|
| Ontario Ministry of Education | | |
| Base grant | 38,445 | 38,446 |
| Capital maintenance grant | 1,600 | 1,326 |
| | **40,045** | **39,772** |

## 11. GOVERNMENT AND CORPORATE PROJECT FUNDING

| ($000s) | 2017 | 2016 |
|---|---|---|
| **Provincial project funding** | | |
| Ministry of Education | | |
| Accessibility for Ontarians with Disabilities Act funding | 597 | 727 |
| Special one-time capital grant | | |
| Capital Expenditure Grant | 443 | 282 |
| Capital Expenditure Grant – deferred (note 9) | (443) | (282) |
| Funding for special preparatory courses | - | 240 |
| Funding for ILC course conversion | 2,199 | - |
| Funding for ILC course conversion deferred (note 8) | (1,056) | - |
| | **1,740** | **967** |
| **Corporate project funding** | | |
| Funding deferred from prior year (note 8) | 1 | 1 |
| Funding deferred to future year (note 8) | - | - |
| | **1** | **1** |
| **Total government and corporate project funding** | **1,741** | **968** |

## 12. OTHER EARNED REVENUE AND COST

| ($000s) | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Revenue | Cost | Net Revenue | Revenue | Cost | Net Revenue |
| Individual and corporate donations | 5,705 | 3,165 | 2,540 | 5,018 | 2,853 | 2,165 |
| Tower rental and transmitter maintenance | 1,028 | - | 1,028 | 1,018 | - | 1,018 |
| Net proceeds from insurance settlement (note 19) | 1,075 | - | 1,075 | - | - | - |
| Interest income | 302 | - | 302 | 337 | - | 337 |
| Sales and licensing | 272 | - | 272 | 394 | - | 394 |
| Property tax rebate program for charities | 245 | - | 245 | 239 | - | 239 |
| Asset disposal | - | - | - | 22 | - | 22 |
| Others | 93 | - | 93 | 111 | - | 111 |
| | **8,720** | **3,165** | **5,555** | **7,139** | **2,853** | **4,286** |

## The Ontario Educational Communications Authority
Financial Statements for the year ended March 31, 2017

### 13. TRANSFORMATIVE GIFTS

#### (a) Bequest

During the year ended March 31, 2014, the Authority was informed that it was a beneficiary of the estate of a TVO viewer. In fiscal 2016, the Authority received the final $37,000 (2015 - $127,000, 2014 - $2,428,000), from the estate for a total bequest of $2,592,000. The donor stipulated in his will that 25%, or $648,000 (2016 - $10,000, 2015 - $32,000, 2014 - $606,000) 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%, or $1,944,000 (2016 - $27,000, 2015 - $95,000, 2014 - $1,822,000), of the bequest for new projects or enhancement of existing products or services as approved by the Board of Directors. During the year, the Authority applied $1,516,000 ($144,000 of the restricted portion and $1,372,000 of the internally restricted portion) to fund new projects.

The Bequest revenue of $144,000 recognized in the Statement of Operations is the total of the restricted portion utilized in the year plus internally restricted contributions received in the year.

Total bequest revenue received during fiscal years 2016 and 2017 has been accounted for as follows:

| ($000s) | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | Restricted | Internally Restricted | Total | Restricted | Internally Restricted | Total |
| Bequest balance, beginning of year | 232 | 1,726 | 1,958 | 639 | 1,916 | 2,555 |
| Contributions received or receivable | - | - | - | 10 | 27 | 37 |
| Utilization of bequest | (144) | (1,372) | (1,516) | (417) | (217) | (634) |
| Bequest balance, end of year | **88** | **354** | **442** | **232** | **1,726** | **1,958** |

#### (b) Gift to be Utilized for Local Hubs

In December 2016, the Authority received a $2,000,000 gift to be utilized in the set up and operation of 4 journalistic local hubs ("Local Hubs") in the province to provide in-depth current affairs journalism in regions across Ontario. The gift consists of a $1,500,000 commitment plus an additional matching gift of up to $500,000 if the Authority raises $300,000 toward this project by June 2018. Revenue will be recognized in future years when expenditures are incurred for the set up and operation of the Local Hubs. There were no expenditures and therefore no revenue to recognize in for the year ended March 31, 2017. As at March 31, 2017, a total of $850,000 in respect of the gift had been received and $11,000 has been raised by the Authority. These amounts have been included in deferred revenue.

### 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) | 2017 | 2016 |
|---|---|---|
| Current affairs and documentaries | 1,531 | 1,767 |
| Technical and production support services | 1,605 | 1,531 |
| Independent Learning Centre | 876 | 574 |
| Management and general | 567 | 605 |
| Cost of other earned revenue | 68 | 154 |
| | **4,647** | **4,631** |

tvo **The Ontario Educational Communications Authority**
Financial Statements for the year ended March 31, 2017

**14. EXPENSES (CONT'D)**

**b) Expenses by Type**

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

| ($000s) | 2017 | 2016 |
|---|---|---|
| Salaries and wages | 32,145 | 30,944 |
| Licences and other | 7,823 | 6,653 |
| Advertising | 2,460 | 2,638 |
| Other services | 1,156 | 3,128 |
| Employee benefits | 6,316 | 5,351 |
| Facilities | 4,757 | 4,645 |
| Employee future benefits | 3,493 | 3,040 |
| Transportation and communication | 2,069 | 1,965 |
| Supplies and equipment | 424 | 629 |
| Amortization of capital assets and accretion expense | 2,545 | 2,504 |
| | **63,188** | **61,497** |

**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 |
|---|---|---|---|
| 2018 | 1,381 | 700 | 2,081 |
| 2019 | 1,415 | 321 | 1,736 |
| 2020 | 1,416 | 309 | 1,725 |
| 2021 | 1,393 | 223 | 1,616 |
| 2022 | 1,386 | 68 | 1,454 |
| 2023 and beyond | 7,878 | - | 7,878 |
| | **14,869** | **1,621** | **16,490** |

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) | 2017 | 2016 |
|---|---|---|
| **Activities were funded by:** | | |
| Ministry of Education ILC grant | 6,420 | 6,421 |
| Homework Help project | 4,000 | 4,000 |
| Funding deferred from prior year (note 8) | 1,944 | 1,752 |
| Funding deferred to a future year (note 8) | (2,637) | (1,944) |
| **ILC grant and project funding recognized** | **9,727** | **10,229** |
| ILC earned revenues | 2,804 | 2,678 |
| **Total ILC grant, project funding and earned revenue** | **12,531** | **12,907** |

tvo **The Ontario Educational Communications Authority**
Financial Statements for the year ended March 31, 2017

### 16. THE INDEPENDENT LEARNING CENTRE (CONT'D)

| | | |
|---|---|---|
| **Expenses during the year:** | | |
| Salaries and benefits | 9,363 | 9,393 |
| Transportation and communication | 370 | 272 |
| Services | 465 | 597 |
| Allocated general expenses (note 14) | 876 | 574 |
| Licences | 232 | 238 |
| Supplies, equipment and others | 63 | 292 |
| ILC Course Conversion costs | 1,143 | - |
| **Total ILC expenses** | **12,512** | **11,366** |
| | | |
| **ILC contribution to overhead** | **19** | **1,541** |

Direct expenses related to the funding deferred to a future year have been budgeted for the 2018 fiscal year.

### 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 or against 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)** | **2017** | **2016** |
|---|---|---|
| School boards | 682 | 743 |
| | **682** | **743** |

### 19. NET PROCEEDS ON INSURANCE SETTLEMENT

On August 27, 2014, the Authority incurred damage to its production facility and to a portion of the equipment in the facility from a flood. The Authority settled a claim with its insurance company for the damage to the facility during this fiscal. The amount received in prior year was $796,000.

| **($000s)** | |
|---|---|
| Proceeds of disposition - insurance settlement for flood damage | 1,741 |
| Less legal expenses | (666) |
| **Net proceeds of disposition** | **1,075** |

### 20. 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 August 4, 2017.

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 Treasury Board Secretariat 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 external 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 opinion.

On behalf of management:

Gadi Mayman
Vice-Chair and Chief Executive Officer

Ken Kandeepan
Chief Financial and Risk 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**
**and to the Minister of Finance**

I have audited the accompanying financial statements of the Ontario Electricity Financial Corporation, which comprise the statement of financial position as at March 31, 2017, 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, 2017, 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, Ontario
August 4, 2017

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

## Ontario Electricity Financial Corporation
# Statement of Financial Position

As at March 31, 2017 ($ millions)

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 3 | $ 12 |
| Investments | 2,556 | 3,413 |
| Accounts receivable (Note 4) | 290 | 466 |
| Interest receivable | 26 | 31 |
| Due from Province of Ontario (Note 5) | 3,577 | 4,281 |
| Notes and loans receivable (Note 6) | 11,375 | 12,524 |
| | $ 17,827 | $ 20,727 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities (Note 7) | $ 93 | $ 104 |
| Interest payable | 372 | 393 |
| Debt (Note 8) | 20,413 | 24,345 |
| Power purchase contracts (Note 10) | 178 | 307 |
| | 21,056 | 25,149 |
| **NET DEBT** | (3,229) | (4,422) |
| **NON-FINANCIAL ASSETS** | | |
| Deferred costs on hedging | 27 | 29 |
| **UNFUNDED LIABILITY** (Notes 1, 3, 12) | $ (3,202) | $ (4,393) |
| Contingencies (Note 13) | | |

Approved on behalf of the Board:

Scott Thompson
Chair

Gadi Mayman
Vice-Chair and Chief Executive Officer

*See accompanying notes to financial statements.*

**Ontario Electricity Financial Corporation**

## Statement of Operations and Change in Unfunded Liability

For the year ended March 31, 2017 ($ millions)

| | 2017 | 2016 |
|---|---|---|
| **REVENUE** | | |
| Debt retirement charge (Notes 1, 12) | $ 621 | $ 859 |
| Payments-in-lieu of tax (Notes 1, 12, 15) | 364 | 3,228 |
| Interest (Note 6) | 703 | 723 |
| Power supply contract recoveries (Note 10) | 838 | 875 |
| Net reduction of power purchase contracts (Note 10) | 129 | 172 |
| Electricity sector dedicated income (Notes 5, 12) | 302 | 3 |
| Financial benefit from the Province related to the disposition of Hydro One Shares (Notes 5, 12) | 411 | 172 |
| Other | 14 | 9 |
| | $ 3,382 | $ 6,041 |
| **EXPENSE** | | |
| Interest on debt | $ 1,216 | $ 1,319 |
| Power supply contract costs (Note 10) | 838 | 875 |
| Debt guarantee fee | 122 | 127 |
| Operating | 7 | 7 |
| Industrial electricity incentive program costs (Note 11) | 8 | 8 |
| | 2,191 | 2,336 |
| Excess of revenue over expense | 1,191 | 3,705 |
| Unfunded liability, beginning of year | (4,393) | (8,098) |
| Unfunded liability, end of year | $ (3,202) | $ (4,393) |

*See accompanying notes to financial statements.*

**Ontario Electricity Financial Corporation**

## Statement of Cash Flow

For the year ended March 31, 2017 ($ millions)

| | 2017 | 2016 |
|---|---|---|
| **CASH FLOWS USED IN OPERATING ACTIVITIES** | | |
| Excess of revenue over expense | $ 1,191 | $ 3,705 |
| Adjustments for: | | |
| Decrease in accounts receivable (Note 4) | 176 | 61 |
| Decrease (increase) in interest receivable | 5 | (1) |
| Decrease in due from province of Ontario (Note 5) | 704 | 622 |
| Decrease in accounts payable and accrued liabilities (Note 7) | (11) | (23) |
| (Decrease) increase in interest payable | (21) | 6 |
| Net increase in debt from revaluation | 22 | 6 |
| Net reduction of power purchase contracts (Note 10) | (129) | (172) |
| Decrease (increase) in deferred costs on hedging | 2 | (30) |
| Other items | 7 | 1 |
| Cash provided from operations | $ 1,946 | $ 4,175 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Net proceeds from (purchase of) investments | 857 | (3,413) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Long-term debt issued | $ – | $ 1,073 |
| Long-term debt retired | (2,978) | (2,033) |
| Short-term debt retired, net | (976) | (21) |
| Note receivable repayment, net | 1,142 | 230 |
| Cash required by financing activities | (2,812) | (751) |
| (Decrease) increase in cash | (9) | 11 |
| Cash, beginning of year | 12 | 1 |
| Cash, end of year | $ 3 | $ 12 |
| Interest on debt paid during the period and included in excess of revenue over expense | $ 1,237 | $ 1,313 |

*See accompanying notes to financial statements.*

## Notes to Financial Statements

### 1) Nature of Operations

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 or Corporation). The Corporation is one of five entities established by the Act as part of the restructuring of the former Ontario Hydro. 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 mandate includes:

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

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, operating the electricity market, planning for and securing resources to meet medium and long-term energy needs, and coordinating conservation efforts; and
- Electrical Safety Authority (ESA), which performs a regulatory function related to electrical inspections.

On April 1, 1999, the Ministry of Finance determined that the estimated value of the assets being transferred to the new entities was $17.2 billion, which was exceeded by the former Ontario Hydro's total debt and other liabilities of $38.1 billion. OPG, Hydro One (and their subsidiaries) and the IESO were transferred assets valued at $8.5 billion, $8.6 billion and $78 million respectively in exchange for debt payable to OEFC. The resulting shortfall of $20.9 billion was determined by the Ministry of Finance to be "stranded debt." After adjusting for $1.5 billion in loans and other assets retained by OEFC, $19.4 billion was the unfunded liability reflected on the OEFC opening balance sheet.

To allow OEFC to service and retire $38.1 billion in total debt including the $20.9 billion in stranded debt, the Province established a long-term plan where debt service and repayment would be through dedicated revenues from electricity-sector companies. This would be broken down for the electricity sector as follows:

- Notes receivable from the Province, OPG, Hydro One and IESO;
- Payments in lieu of taxes (PILs), which are equivalent to the corporate income, property and capital taxes paid by private corporations;
- Debt retirement charge (DRC) paid by electricity consumers; and

- The cumulative combined profits of OPG and Hydro One (proportionate to the Province's ownership share) in excess of the government's annual interest cost of its investments in the two companies.

As of April 1, 1999, the present value of the future PILs and the cumulative combined profits of OPG and Hydro One in excess of the government's $520 million annual interest cost of its investments in the two companies to be dedicated to OEFC was estimated at $13.1 billion. As a result, subtracting the $13.1 billion from the stranded debt of $20.9 billion resulted in an initial estimate of $7.8 billion, for the residual stranded debt.

The Act provided for the DRC to be paid by electricity consumers until the residual stranded debt was retired. The 2014 Budget announced that the government would remove the DRC from residential users' electricity bills as of January 1, 2016. At March 31, 2014, the residual stranded debt was $2.6 billion. In addition, the 2015 Fall Economic Statement announced the proposed removal of the DRC for all commercial, industrial and all other electricity consumers as of April 1, 2018. Pursuant to this announcement, the *Electricity Act, 1998* was amended by the *Budget Measures Act, 2015* and all reference to the "stranded debt" and "residual stranded debt" were removed. This also included the removal of the requirement to determine the residual stranded debt from time-to-time and the regulation-making authority for O. Reg. 89/12 – rendering the regulation obsolete.

## 2) Summary of Significant Accounting Policies

### (a) Basis of Accounting

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

### (b) Net Debt Presentation

A statement of changes in net debt is not presented since this information is readily apparent. A comparison between budget and actual has been excluded due to the unique nature of OEFC's revenues and expenses over which the agency has minimal control. OEFC is a passive recipient of revenues that it receives on the basis of either legislation (e.g., DRC, GRC, PILs, recovery of NUG contractual costs) or allocated by the Province at its discretion (ESDI).

### (c) 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, payments-in-lieu of tax receivable and tax refundable. Estimates are based on the best information available at the time of preparation of the financial statements.

### (d) Investments

Investments include term deposits held with the Province recorded at cost and mature within one year.

**(e) Revenue Recognition**

The main sources of revenue are:

- **Debt retirement charge (DRC)** from ratepayers is recognized in the period earned based on the consumption of electricity.
- **Payments-in-lieu of taxes (PILs)** are recognized in the period that they are earned from OPG, Hydro One and municipal electric utilities. Also included under PILs are Gross Revenue Charge amounts and amounts allocated by the Province to OEFC equal to provincial corporate income taxes payable by Hydro One Inc. (post – IPO).
- **Interest income** is recognized in the period it is earned on notes receivable from the Province, OPG, IESO, and NUGs.
- **Power supply contract recoveries** are recognized as recovered at the same amount as the costs incurred on the Power supply contracts.
- **Electricity sector dedicated income** is allocated at the discretion of the Province of Ontario, using the cumulative combined net income of OPG and Hydro One Limited (related to the Province's ownership share) and Brampton Distribution Holdco Inc. in excess of the Province's interest costs of its investment.
- **Provincial allocation related to the sale of Hydro One** is recognized in accordance with section 50.3 of the *Electricity Act, 1998* where OEFC receives a benefit as a result of the sales of Hydro One shares.

**(f) Financial Instruments**

The corporation's financial assets and liabilities are accounted for as follows:

- Cash and investments are subject to an insignificant risk of change in value so carrying value approximates fair value.

- Accounts Receivable, Due from Province and Notes and Loans Receivable are recorded at cost.

- 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.

  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. Other derivative instruments used by OEFC include forward foreign exchange contracts, forward rate agreements, futures and options. Derivatives are recognized at cost on the date on which derivatives are entered and are not subsequently re-measured at fair value at each reporting date.

**(g) Debt guarantee fee**

A fee equal to 0.5 per cent is payable to the Province annually based on the principal amount of notes, debentures and other indebtedness of the Corporation owed to the Province or guaranteed by the Province excluding adjustments to debt related to unrealized foreign exchange gains and debt issue costs.

**(h) Deferred Costs on Hedging**

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 non-financial assets.

**(i) Accounts payable and accrued Liabilities**

Accounts payable relate to normal business transactions with third-party suppliers and are subject to standard commercial terms.

**(j) 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 decision was made to amortize the liability to revenue over the period when most existing electricity contracts expire with the liability fully eliminated in fiscal 2021–22.

## 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) Accounts Receivable

| As at March 31 ($ millions) | 2017 | 2016 |
|---|---|---|
| **Debt retirement charge** | $ 91 | $ 91 |
| **Payments-in-lieu of tax** | 109 | 284 |
| **Power supply contract recoveries** | 85 | 83 |
| **Other receivables** | 5 | 8 |
| **Total** | **$ 290** | **$ 466** |

## 5) Due from the Province

| As at March 31 ($ millions) | 2017 | 2016 |
|---|---|---|
| **Electricity sector dedicated income** | $ 3,138 | $ 4,106 |
| **Financial benefit related to disposition of Hydro One shares** | 411 | 172 |
| **Amount equal to Hydro One Inc. provincial income tax** | 28 | 3 |
| **Total** | **$ 3,577** | **$ 4,281** |

In 1999, the Province put in place a policy commitment to allocate annually the 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 recoups all costs associated with its investments in electricity subsidiaries on a cumulative basis before any of the combined net income is allocated to and recognized by OEFC.

For the year ended March 31, 2017, for the purposes of Electricity Sector Dedicated Income, the Province's combined net income of OPG, Hydro One Limited and Brampton Distribution Holdco Inc. was $816 million (2016 – $ 523 million). After deducting the Province's $514 million interest cost of its investment in these subsidiaries (2016 – $520 million), the Province at its discretion allocated to OEFC electricity sector dedicated income of $287 million (2016 – $3 million). OEFC however, is reporting $302 million which includes, estimated income allocated from Brampton Distribution Holdco Inc. (Hydro One Brampton) of $15 million (2016 – $ 15 million) which, at the time of preparation of these statements, had not yet been finalized and approved by the Province as part of the discretionary allocation of ESDI to OEFC (the agency will be requesting provincial approval in due course) but is included in ESDI to ensure consistency and comparability with prior periods. During fiscal 2016–17, the Province paid $1,270 million to OEFC which reduced the balance due.

Section 50.3 of the *Electricity Act, 1998* governs the payments to be made to the Corporation in respect of the disposition of any securities of Hydro One. For fiscal 2016–17, OEFC recognized $411 million from the Province under section 50.3 in connection with Hydro One share sales (2016 – $172 million). During fiscal 2016–17, the Province settled $172 million of the amount due through a remission of short-term debt that OEFC held with the Province.

In addition, section 91.2 of the Electricity Act requires the Province to pay to the Corporation an amount equal to the amount of tax payable under the *Taxation Act, 2007* by Hydro One Inc. (or subsidiaries). For fiscal 2016–17, OEFC has recognized $24.8 million under section 91.2 (2016 – $2.9 million, for November 5 – December 31, 2015 post Hydro One IPO).

## 6) Notes and Loans Receivable

| ($ millions) | | | | | |
|---|---|---|---|---|---|
| | **Maturity Date** | **Interest Rate** | **Interest Payable** | **March 31, 2017** | **March 31, 2016** |
| The Province | 2039–2041 | 5.85 | Monthly | $ 7,763 | $ 8,885 |
| OPG | 2017–2047 | 2.96 to 6.33 | Semi-Annually | 3,445 | 3,465 |
| IESO | 2017 | Variable/2.05 | Monthly/ Semi-Annually | 90 | 90 |
| | | | | 11,298 | 12,440 |
| Add: Loans receivable from NUGs | | | | 77 | 84 |
| **Total** | | | | **$ 11,375** | **$ 12,524** |

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

OEFC's interest income for 2017 of $703 million (2016 – $723 million) included interest from notes receivable of $686 million (2016 – $701 million) and $17 million (2016 – $22 million) from other sources including temporary investments.

**<u>The Province</u>**

As previously noted above, at the time of restructuring the former Ontario Hydro, the Province received equity of $8.9 billion in OPG and Hydro One in exchange for assuming debt payable to OEFC. During fiscal 2016–17, the Province paid $1,122 million to OEFC reducing the principal notes outstanding.

**<u>OPG</u>**

OEFC 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.

The OEFC agreed to provide up to $700 million in support of OPG's investment for the Lower Mattagami project. The facility expired June 30, 2016 with no borrowing under this credit facility agreement.

The OEFC agreed to provide up to $800 million for general corporate purposes, including the Darlington refurbishment project, expiring on December 31, 2016 with $100 million advanced under this facility and a $700 million credit facility for the period June 1, 2016 to December 31, 2017. As at March 31, 2017, $200 million has been advanced under this credit facility.

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

| Fiscal Year | Amount |
|---|---|
| 2017–18 | $ 1,125 |
| 2018–19 | 260 |
| 2019–20 | 505 |
| 2020–21 | 420 |
| 2021–22 | 185 |
| 2022–23 | 130 |
| 2023–24 | 20 |
| 2026-27 | 50 |
| 2040–41 | 150 |
| 2041–42 | 350 |
| 2046-47 | 250 |
| **Total** | **$ 3,445** |

## IESO

At March 31, 2017, OEFC held a note receivable from IESO of $90 million. In April 2017, OEFC refinanced a note receivable with the IESO, originally maturing on April 30, 2017 for an additional term to June 30, 2020. The refinancing increased the principal outstanding from $90 million to $120 million.

At March 31, 2017, IESO had no balance drawn on the following credit facility. In April 2017, OEFC also extended the expiry date of its revolving credit facility to the IESO to June 30, 2020, and increased the credit facility from $95 million to $160 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 working capital requirements.

## NUGs

Loans receivable from NUGs at March 31, 2017 totalled $77 million (2016 – $84 million).

## 7) Accounts Payable and Accrued Liabilities

| As at March 31 ($ millions) | 2017 | 2016 |
|---|---|---|
| **Power supply contract costs** | $ 83 | $ 88 |
| **Payments-in-lieu of tax refundable** | 6 | 12 |
| **Other liabilities** | 4 | 4 |
| **Total** | **$ 93** | **$ 104** |

## 8) Debt

Debt at March 31, 2017, is set out below by maturity and by currency of repayment, expressed in Canadian dollars.

| Currency ($ millions) | Canadian Dollars | U.S. Dollars | Other Foreign | 2017 Total | 2016 Total |
|---|---|---|---|---|---|
| Maturing in: | | | | | |
| 1 year | $ 2,299 | $ 295 | $ 179 | $ 2,773 | $ 4,607 |
| 2 years | 482 | 74 | 156 | 712 | 2,119 |
| 3 years | 1,384 | – | – | 1,384 | 709 |
| 4 years | 1,361 | – | – | 1,361 | 1,384 |
| 5 years | 1,805 | – | – | 1,805 | 1,361 |
| 1–5 years | 7,331 | 369 | 335 | 8,035 | 10,180 |
| 6–10 years | 8,844 | – | – | 8,844 | 9,628 |
| 11–15 years | 1,041 | – | – | 1,041 | 1,215 |
| 16–20 years | 846 | – | – | 846 | 850 |
| 21–25 years | 782 | – | – | 782 | 1,328 |
| 26–50 years | 875 | – | – | 875 | 1,157 |
| | **$ 19,719** | **$ 369** | **$ 335** | **$ 20,423** | **$ 24,358** |
| **Debt issue costs** | | | | **(10)** | **(13)** |
| **Total** | | | | **$ 20,413** | **$ 24,345** |

The effective rate of interest on the debt portfolio was 5.39 per cent after considering the effect of derivative instruments used to manage interest rate risk (2016 – 5.14 per cent). The longest term to maturity is to December 2, 2046. Total foreign currency denominated debt at March 31, 2017 was $0.7 billion, 100 per cent of which was fully hedged to Canadian funds (2016 – $1.2 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, 2017 | | | March 31, 2016 | | |
|---|---|---|---|---|---|---|
| **($ millions)** | **Held by the Province** | **Guaranteed by the Province** | **Total** | **Held by the Province** | **Guaranteed by the Province** | **Total** |
| Short-term debt | $ 654 | – | $ 654 | $ 1,630 | – | $ 1,630 |
| Current portion of long-term debt | 2,119 | – | 2,119 | 2,977 | – | 2,977 |
| Long-term debt | 11,330 | 6,310 | 17,640 | 13,428 | 6,310 | 19,739 |
| **Total** | **$ 14,103** | **$ 6,310** | **$ 20,413** | **$ 18,035** | **$ 6,310** | **$ 24,345** |

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, 2017, was $24.5 billion (2016 – $29.3 billion). This is higher than the book value of $20.4 billion (2016 – $24.3 billion) because current interest rates are generally lower than the interest rates at which the debt was issued. The fair value of debt does not reflect the effect of related derivative contracts.

## 9) 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/currency risk

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, 2017, the actual unhedged level was 0.0 per cent of total debt (2016 – 0.0 per cent).

### Net Interest Rate Resetting Risk

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, 2017, net interest rate resetting risk as a percentage of total debt was minus 3.1 per cent (2016 – 7.6 per cent).

## Liquidity Risk

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, 2017, 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, 2017 ($ millions)**

| Maturity in years | | | | | | 6–10 | Over 10 | | |
|---|---|---|---|---|---|---|---|---|---|
| Fiscal year | 2018 | 2019 | 2020 | 2021 | 2022 | Years | Years | Total | March 2016 |
| Cross-currency swaps | $ 670 | $ 203 | $ – | $ – | $ – | $ – | $ – | $ 873 | $ 1,631 |
| Interest rate swaps | 632 | 706 | – | – | 100 | 423 | 230 | 2,091 | 3,205 |
| Forward foreign exchange contracts | 190 | – | – | – | – | – | – | 190 | 498 |
| **Total** | **$ 1,492** | **$ 909** | **$ –** | **$ –** | **$ 100** | **$ 423** | **$ 230** | **$ 3,154** | **$ 5,334** |

## Credit Risk

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, 2017.

| Credit Risk Exposure ($ millions) | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Gross credit risk exposure | $ 151 | $ 263 |
| Less: Netting | (149) | (218) |
| **Net credit risk exposure** | **$ 2** | **$ 45** |

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.

## 10) 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 decision was made to amortize the liability to revenue over the period when most electricity contracts expire with the liability fully eliminated in fiscal 2021-22. The table below presents the unamortized liability.

**Statement of Liability for Power Purchase Contracts**
**As at March 31, 2017 ($ millions)**

| | 2017 | 2016 |
|---|---|---|
| Liability, beginning of year | $ 307 | $ 479 |
| Amortization | (129) | (172) |
| Liability, end of year | **$ 178** | **$ 307** |

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, 2017, OEFC's costs under power supply contracts totalled $838 million, including purchases of power from NUGs of $840 million (2016 – $865 million) and OPG support contract costs of $2 million recovered related to the settlement of a property tax assessment (2016 – $10 million costs).

Under a decision dated March 12, 2015 the Ontario Superior Court of Justice found that following the enactment of Ontario Regulation 398/10 under which the allocation of the Global Adjustment among electricity consumers was changed effective as of January 1, 2011, the Corporation had incorrectly calculated the price indices under certain power purchase agreements between the Corporation and the applicant non-utility generators (NUGs). In October 2016 the corporation paid $181 million in retroactive payments including interest to the applicant NUGs. Following the January 19, 2017 dismissal of OEFC's application for leave to appeal by the Supreme Court of Canada from the judgment of the Court of Appeal of Ontario, about $79 million became payable to certain NUGs that were not applicants to the original claim but that entered into standstill agreements with OEFC following the original court decision. All amounts are recoverable from the Global Adjustment via the IESO settlement process.

## 11) Industrial Electricity Incentive Program Costs

Consistent with its objects, OEFC is supporting the IESO's electricity demand management program, the Industrial Electricity Incentive (IEI) program. The IEI program assists with the management of electricity demand by encouraging increased industrial production through electricity-based price adjustments. Offered in three streams, qualified participants can receive reduced electricity rates for eligible incremental consumption over a specified term.

On March 31, 2014, OEFC entered into a legal agreement, and as amended on May 13, 2015, with the former OPA to support the IEI program. Subsequent to the January 1, 2015 merger of the IESO and the OPA into a new entity, also called the IESO, the contract is now between the IESO and the OEFC. OEFC is providing payments to the IESO to offset the cost of the DRC portion of the electricity bill paid to OEFC on IEI-eligible incremental consumption by IEI participants. The agreement is currently set to be effective until December 31, 2024, with contracts subject to various termination clauses.

*The Budget Measure Act, 2015*, passed on December 10, 2015 will remove the DRC as of April 1, 2018 for all commercial, industrial and all other electricity consumers. OEFC will no longer provide offsetting payments to the IESO on IEI-eligible incremental electricity consumed beginning April 1, 2018.

## 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 funds from the electricity sector.

Prior to the Hydro One IPO (see note 15), these funds included Notes Receivable, PILs, Gross Revenue Charges (GRC), DRC and ESDI.

Following the Hydro One IPO, these funds include Notes Receivable, PILs, GRC, Provincial Corporate Income Taxes allocated by the Province to OEFC from taxes payable by Hydro One Inc. in accordance with *The Budget Measures Act, 2015*, DRC, ESDI and a financial benefit from the proceeds of the IPO and any future share sales in accordance with section 50.3 of the *Electricity Act, 1998*.

## 13) Contingencies

OEFC is involved in various legal actions arising out of the ordinary course and conduct of business. For some claims which relate to the former Ontario Hydro prior to the establishment of OEFC on April 1, 1999, OPG or Hydro One is required to indemnify OEFC for any liability arising from the claim. There are currently no such claims. 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.

Prior to October 31, 2015, subject to a $10 million deductible, OEFC 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. Effective October 31, 2015, OEFC and Hydro One, with the consent of the Minister of Finance, terminated this indemnity. A similar indemnity provided to OPG was terminated as of May 31, 2006.

## 14) Related Party Transactions

In the normal course of operations, OEFC has transactions with the following related parties:

a) Province of Ontario
b) Ontario Power Generation Inc.
c) Hydro One Inc. (for the period up to October 2015) and Hydro One Ltd. (post IPO)
d) Independent Electricity System Operator

The Corporation has entered into service level agreements with the following entities:

**Ontario Financing Authority**

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 a cost-recovery basis of $3.8 million (2016 – $3.7 million).

**Ministry of Finance (MOF)**

MOF provides revenue collection and reporting services to OEFC on a cost-recovery basis of $1.7 million (2016 – $1.7 million).

## 15) Broadening Hydro One Ownership

On November 5, 2015, the Province completed the first phase of its plan to broaden Hydro One ownership. It sold about 16 per cent of the Province's outstanding Hydro One common shares at a price of $20.50 per share, through an IPO and through related share sales to electricity sector union trusts. On November 4, 2015, Hydro One paid a departure tax of $2.6 billion to OEFC as a consequence of leaving the PILs regime. Hydro One also paid a one-time additional PIL of tax payment of $191 million associated with the transaction. The Province also initiated a secondary share offering of Hydro One shares on April 5, 2016 which upon completion reduced the Province's holdings of Hydro One to approximately 70 per cent.

As a result of the Hydro One IPO, Hydro One and all its subsidiaries are subject to corporate income taxes (CIT). Under the amendments made to the *Electricity Act, 1998* in the fall *Budget Measures Act, 2015*, the Minister of Finance must pay the OEFC an amount equal to provincial tax payable under the Taxation Act, 2007 by Hydro One Inc., to continue to help service and pay down the electricity sector stranded debt.

Proceeds related to the book value of the shares sold and the special dividend payment of $800 million paid by Hydro One to the Province will be used to pay down the Province's electricity sector debt and other payables. As noted in Notes 5 and 6, OEFC received $2,392 million from the Province during fiscal 2016–17 related to the book value of Hydro One common shares sold in November 2015 and April 2016, of which the Province applied $1,270 million to reduce its payable related to cumulative electricity dedicated earnings (Due from the Province of Ontario) and $1,122 million to reduce the principal amount of notes payable to OEFC that the Province had assumed on acquiring the shares of Hydro One. In February 2016, the Province also paid OEFC the $800 million that it had received as a special dividend from Hydro One prior to the IPO, which the Province applied to reduce its payable related to cumulative electricity sector dedicated earnings (Due from the Province of Ontario).

In accordance with section 50.3 of the *Electricity Act, 1998*, in the year ended March 31, 2017 OEFC recognized a financial benefit from the Province of $411 million (2016 – $172 million) in connection with the Province's disposition of Hydro One common shares in April 2016. As noted in Note 5, during fiscal 2016–17, the Province settled $172 million related to the 2016 benefit through a remission of short-term debt that OEFC held with the Province.

On May 17, 2017 the Province announced that it had completed the final public offering of Hydro One shares, selling 120 million common shares at $23.25 per share.

## 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 Ontario Energy 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 Ontario Energy Board's assets and liabilities are adequately accounted for and assets safeguarded.

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

Julie Mitchell
Vice President, People Culture & Business Solutions
July 5, 2017

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale 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, 2017 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 Ontario Energy Board as at March 31, 2017 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
July 5, 2017

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

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**Ontario Energy Board**

**STATEMENT OF FINANCIAL POSITION**

**As of March 31, 2017**

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current Assets: | | | | |
| Cash (note 9) | $ | 13,274,921 | $ | 8,616,823 |
| Investments - current (note 9) | | - | | 3,850,613 |
| Accounts receivable (note 9) | | 635,949 | | 1,249,054 |
| Regulatory process costs to be assessed (note 9) | | 4,547,463 | | 2,436,533 |
| Deposits and prepaid expenses | | 355,569 | | 411,535 |
| Total Current Assets | | 18,813,902 | | 16,564,558 |
| Long-term Assets: | | | | |
| Capital assets (note 5) | | 3,541,382 | | 2,802,373 |
| Total Long-term Assets | | 3,541,382 | | 2,802,373 |
| **TOTAL ASSETS** | **$** | **22,355,284** | **$** | **19,366,931** |
| **LIABILITIES** | | | | |
| Current Liabilities: | | | | |
| Deferred revenue (note 3b) | $ | 1,094,242 | $ | - |
| Accounts payable and accrued liabilities | | 6,847,048 | | 6,803,732 |
| Total Current Liabilities | | 7,941,290 | | 6,803,732 |
| Long-term Liabilities: | | | | |
| Deferred revenue related to capital assets (note 3c) | | 2,820,979 | | 1,820,005 |
| Deferred rent inducement (note 8) | | 930,083 | | 1,268,255 |
| Pension liability (note 6b) | | 207,933 | | 276,049 |
| Total Long-term Liabilities | | 3,958,995 | | 3,364,309 |
| **TOTAL LIABILITIES** | **$** | **11,900,285** | **$** | **10,168,041** |
| Operating Reserve (note 4) | $ | 8,000,000 | $ | 6,870,615 |
| Net Assets: | | | | |
| Internally Restricted Net Assets (note 7) | | 2,454,999 | | 2,328,275 |
| **TOTAL LIABILITIES, RESERVE AND NET ASSETS** | **$** | **22,355,284** | **$** | **19,366,931** |

See accompanying notes to financial statements

On behalf of the Management Committee:

Rosemarie T. Leclair
Chair

Christine Long
Vice-Chair

Ken Quesnelle
Vice-Chair

**Ontario Energy Board**

**STATEMENT OF OPERATIONS AND NET ASSETS**

**Year Ended March 31, 2017**

| | 2017 | 2016 |
|---|---|---|
| **REVENUES** | | |
| Recovery of Costs: | | |
| General cost recovery (note 3a) | $ 35,994,760 | $ 33,578,350 |
| Regulatory process costs - OESP (note 11) | 4,279,913 | 11,881,381 |
| Regulatory process costs | 4,085,707 | 2,336,392 |
| Amortization of deferred revenue related to capital assets | 780,639 | 795,275 |
| Total Revenues from Recovery of Costs | 45,141,019 | 48,591,398 |
| Other Revenues: | | |
| Licence fees | 396,400 | 389,600 |
| Interest income (note 9) | 134,016 | 137,439 |
| Administrative penalties and interest (note 7) | 126,724 | 22,445 |
| Miscellaneous income | 5,168 | 1,713 |
| Total Other Revenues | 662,308 | 551,197 |
| **TOTAL REVENUES** | **$ 45,803,327** | **$ 49,142,595** |
| **EXPENSES** | | |
| Salaries and benefits | 28,043,034 | 26,344,088 |
| Consulting and professional (note 11) | 7,267,704 | 13,442,756 |
| Publications, media and advertising (note 11) | 4,666,850 | 3,657,818 |
| Premises | 2,829,533 | 2,799,966 |
| Information technology | 1,089,125 | 970,197 |
| Office and administration | 526,969 | 416,163 |
| Meetings, training and travel | 472,749 | 693,887 |
| Amortization of capital assets paid by OEB | 780,639 | 795,275 |
| **TOTAL EXPENSES** | **$ 45,676,603** | **$ 49,120,150** |
| **EXCESS OF REVENUES OVER EXPENSES** | **$ 126,724** | **$ 22,445** |
| Net Assets, beginning of period | 2,328,275 | 2,305,830 |
| **NET ASSETS, end of period (note 7)** | **$ 2,454,999** | **$ 2,328,275** |

See accompanying notes to financial statements

**Ontario Energy Board**

**STATEMENT OF CASH FLOWS**

**Year Ended March 31, 2017**

| | 2017 | 2016 |
|---|---|---|
| ***Net inflow (outflow) of cash related to the following activities:*** | | |
| **OPERATING** | | |
| Assessment billed | $ 38,870,615 | $ 34,243,181 |
| Regulatory process costs revenue | 8,365,620 | 14,217,773 |
| Other revenues | 662,308 | 551,197 |
| Expenses | (45,676,603) | (49,120,150) |
| | 2,221,940 | (107,999) |
| Adjustment for Non-cash Expenses: | | |
| Amortization of capital assets paid by OEB | 780,639 | 795,275 |
| Amortization of leasehold improvements paid by Landlord | 261,965 | 261,965 |
| Deferred rent inducement | (338,172) | (338,172) |
| | 704,432 | 719,068 |
| Changes in Non-cash Working Capital: | | |
| Accounts receivable | 613,105 | (420,607) |
| Regulatory process costs to be assessed | (2,110,930) | 2,595,791 |
| Deposits and prepaid expenses | 55,966 | (16,186) |
| Operating reserve | 1,129,385 | 1,850,641 |
| Accounts payable and accrued liabilities | 43,316 | 82,541 |
| Pension liability | (68,116) | (47,370) |
| | (337,274) | 4,044,810 |
| **Net Cash from Operating Activities** | **2,589,098** | **4,655,879** |
| **INVESTING** | | |
| Maturity of investments | 3,850,613 | 1,036,727 |
| **Net Cash from Investing Activities** | **3,850,613** | **1,036,727** |
| **CAPITAL** | | |
| Capital asset purchases | (1,781,613) | (690,866) |
| **Net Cash Used in Capital Activities** | **(1,781,613)** | **(690,866)** |
| **NET CHANGE IN CASH** | 4,658,098 | 5,001,740 |
| Cash, beginning of period | 8,616,823 | 3,615,083 |
| **Cash, end of period** | **$ 13,274,921** | **$ 8,616,823** |

See accompanying notes to financial statements

## 1. Nature of the Corporation

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

Effective August 1, 2003, and pursuant to the *Ontario Energy Board Act, 1998* (the "OEB Act"), the OEB 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 OEB is exempted from federal and provincial income taxes under the *Income Tax Act*.

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

## 2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PS), which constitutes generally accepted accounting principles for government not-for-profit organizations in Canada. The OEB has elected 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 fiscal year (FY) 2017 that relate to subsequent years are not recognized as revenue and are deferred. Recognition of revenue is matched to the expenses of the OEB as follows:

- General cost recovery under section 26 of the OEB Act related to the expenses of the OEB is recognized as revenue to the extent that they are in excess of regulatory process costs (section 30 and section 79.2), amortization of deferred revenue related to capital assets, and other revenues. When revenue is assessed in excess of actual cost in a current year it is deferred and recognized in following fiscal year and referred to as a true-up (note 3b).

- Revenue from administrative penalties assessed against market participants under section 112.5 of the OEB Act is recognized in the year the OEB 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 exhausted and the order becomes final. Revenue from administrative penalties is not used to reduce the costs assessed under the OEB'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 3c).

- Regulatory process costs (section 30 and section 79.2 of the OEB Act) 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 OEB'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 OEB uses fair value for the subsequent measurement of cash, accounts receivable, regulatory process costs to be assessed, accounts payable and accrued liabilities. The OEB's short and long term investments are subsequently measured at amortized cost.

*d) Use of Estimates*

The preparation of financial statements in accordance with Canadian Public Sector Accounting Standards (PS) 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.

*e) Employee Pension Plans*

The OEB'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 OEB's annual payments to the Fund. Since the OEB is not a sponsor of these funds, gains and losses arising from statutory actuarial funding valuations are not assets or obligations of the OEB, as the sponsor is responsible for ensuring that the pension funds are financially viable. The OEB's expense is limited to the required contributions to the Fund as described in note 6a.

The OEB also manages a supplementary unfunded pension plan for a former Chair as described in note 6b. The OEB 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 FY 2017

During FY 2017, the natural gas and electricity industry participants were assessed estimated costs for FY 2017 based on budgeted amounts. Amounts assessed in excess of actual costs are a true-up and are reported as current deferred revenue. The calculation of the general cost recovery, true-up and deferred revenue are outlined in the following tables.

*a) FY 2017 General cost recovery*

| | |
|---|---|
| Salaries and benefits | $28,043,034 |
| Consulting and professional | 7,267,704 |
| Publications, media and advertising | 4,666,850 |
| Premises | 2,829,533 |
| Information technology | 1,089,125 |
| Office and administration | 526,969 |
| Meetings, training and travel | 472,749 |
| Amortization of capital assets paid by the OEB | 780,639 |
| Total expenses | 45,676,603 |
| Regulatory process costs, amortization of deferred revenue related to capital assets and other revenues excluding administration penalties & interest | (9,681,843) |
| **General cost recovery at March 31, 2017** | **$35,994,760** |

*b) FY 2017 Current Deferred Revenue (FY 2017 True-up)*

| | | |
|---|---|---|
| General cost recovery (note 3a) | $35,994,760 | |
| FY 2017 Capital expenditures paid by the OEB | 1,781,613 | |
| Operating reserve adjustment | 1,129,385 | |
| Total assessment (actual) | | 38,905,758 |
| Total assessment (budget) | | 40,000,000 |
| ***FY 2017 Current deferred revenue (FY 2017 True-up)*** | | **$1,094,242** |

*c) FY 2017 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 OEB since the start of the lease on January 1, 2005.

| | |
|---|---|
| Net book value of capital assets FY 2017 (note 5) | $3,541,382 |
| Net book value of leasehold improvements paid by landlord (note 5) | (720,403) |
| **FY 2017 Deferred revenue related to capital assets** | **$2,820,979** |

## 4. Operating Reserve

As part of its self-financing status, the OEB established an operating reserve, which is adjusted on an annual basis. The primary objective of maintaining this reserve is to fund the OEB'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. Based on the review of cash flow, the OEB has increased the maximum allowable operating reserve to 20% of the OEB's current annual funding requirement. The operating reserve is currently 20%.

*FY 2017 Operating reserve*

| | |
|---|---|
| Operating reserve as at March 31, 2016 | $6,870,615 |
| Adjustment to the operating reserve | 1,129,385 |
| **Operating reserve as at March 31, 2017** | **$8,000,000** |

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

## 5. Capital Assets

| | Cost | Accumulated amortization | Net book value FY 2017 | Net book value FY 2016 |
|---|---|---|---|---|
| Office furniture and equipment | $2,871,590 | $2,804,730 | $66,860 | $3,381 |
| Computer equipment and related software | 14,215,105 | 11,973,422 | 2,241,683 | 1,328,749 |
| Audio visual equipment | 927,830 | 895,490 | 32,340 | 4,682 |
| Leasehold improvements paid by OEB | 1,456,766 | 976,670 | 480,096 | 483,193 |
| Leasehold improvements paid by Landlord | 3,540,400 | 2,819,997 | 720,403 | 982,368 |
| **Total** | **$23,011,691** | **$19,470,309** | **$3,541,382** | **$2,802,373** |

## 6. Employee Future Benefits

a) The OEB's contribution to the Public Service Pension Plan for FY 2017 was $1,873,758 (2016 - $1,532,038), 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 $207,933 (2016 - $276,049) and an accrued benefit liability with respect to the OEB of $207,933 (2016 - $276,049). The OEB's related expense for the year was negative $41,990 (2016 - negative $38,537) and is reflected in salaries and benefits costs. Benefits paid during the year were $26,126 (2016 - $8,333). The significant actuarial assumptions adopted at March 31, 2017 included a discount rate of 2.25% (2016 – 2.00%).

c) The OEB is not responsible for the cost of employee post-retirement and 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, 2017 represent revenue from administrative penalties assessed against individual market participants under section 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 | | $2,328,275 |
| Administrative penalties issued in FY 2017 | $106,500 | |
| Interest revenue from administrative penalties | 20,224 | |
| Administrative penalties and interest | | 126,724 |
| Expenses incurred | | 0 |
| **Balance, end of the year** | | **$2,454,999** |

## 8. Deferred Rent Inducement and Operating Lease Commitments

The OEB entered into a lease commitment for its office space during FY 2005, 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:

| | FY 2017 | FY 2016 |
|---|---|---|
| Balance, beginning of the year | $1,268,255 | $1,606,427 |
| Less: Amortization of deferred rent inducement netted against premises expense | (338,172) | (338,172) |
| **Balance, end of the year** | **$930,083** | **$1,268,255** |

The minimum base rental payments under the operating lease, expiring December 31, 2019 for the remaining 3 years and in aggregate are as follows:

| | |
|---|---|
| March 31, 2018 | 1,082,937 |
| March 31, 2019 | 1,030,058 |
| December 31, 2019 | 772,544 |
| **Total** | **$2,885,539** |

OEB is committed to pay its proportionate share of realty taxes and operating expenses for the premises, which amounted to $1,720,853 during FY 2017 (2016 - $1,723,845). These amounts are expected to be similar in future years.

## 9. Financial Instruments

*Interest rate risk:*

The OEB's financial assets and liabilities are not exposed to significant interest rate risk. The OEB had two Ontario Government bonds that fully matured on September 2016 and March 2017 with effective yields of 1.80% and 1.48% respectively. Management has decided not to re-invest as the market rate and bank rate is not significantly different. OEB will continue to monitor the market. Cash balances earn interest at a rate of 0.85% (2016 – 0.85% to 1.00%). The average cash balance interest rate for the year was 0.85% (2016 – 0.90%).

A 25 basis point change in the interest rate would impact the OEB's operating surplus by $28,468 (2016 - $25,243).

*Currency risk:*

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

*Credit risk:*

The OEB's exposure to credit risk is minimal. The OEB has minimal credit risk exposure in regard to accounts receivable due to high historical collection rates. Below the accounts receivable aging is summarized:

| | Current | +60 Days | +90 Days | Total |
|---|---|---|---|---|
| Regulatory process costs | $ 99,309 | $206 | | $99,515 |
| General cost recovery | 2,000 | | | 2,000 |
| HST recovery | 523,897 | | | 523,897 |
| Interest receivable | 10,537 | | | 10,537 |
| **Total** | **$635,743** | **$206** | **$0** | **$635,949** |

The OEB also has minimal credit risk exposure in regard to the $4,547,463 (2016 - $2,436,533) of regulatory process costs to be assessed due to high historical collection rates. Included in these costs is $2.2M to be collected by related parties. Regulatory process costs to be assessed are costs incurred by the OEB which will be invoiced in a future fiscal year after March 31, 2017.

*Liquidity risk:*

The OEB's exposure to liquidity risk is minimal as the OEB has a sufficient cash balance to settle all current liabilities. As of March 31, 2017, the OEB had a cash balance of $13,274,921 (2016 - $ 8,616,823) and investments balance of $0 (2016 - $3,850,613) to settle current liabilities of $7,941,290 (2016 - $6,803,732). All Ontario Government bonds fully matured in FY 2017.

## 10. Related Party Transactions

The Province of Ontario is a related party as it is the controlling entity of the OEB. Therefore, the Independent Electricity System Operator (IESO), Ontario Power Generation (OPG), Hydro One and Ontario Ministry of Finance are related parties of the OEB, through the common control of the Province of Ontario. The total related party transactions for FY 2017 are revenues of $13,713,900 (2016 - $15,969,538), and expenses of $133,071 (2016 - $193,946). These expenses relate to salary & benefits for secondments and IT expenses. Related party transactions pertaining to employee future benefits are disclosed in note 6.

Related party transactions occurred with the establishment of the Ontario Electricity Support Program are included in note 11.

## 11. Ontario Electricity Support Program (OESP) Administration

The OEB has entered into contractual commitments regarding the implementation and administration of the new OESP, a new rate assistance program for low-income electricity customers, which as of January 1, 2016, provides eligible low-income customers with a monthly credit on their electricity bills. These commitments include the costs associated with the centralized service provider engaged by the OEB to administer the OESP. The OEB recovers its OESP administrative costs from the Independent Electricity System Operator (IESO). The IESO also incurs other costs related to the OESP.

In FY 2017, the Statement of Operations and Net Assets has $4,279,913 (2016 - $11,881,381) of program costs, including administration and carryover implementation costs. Total revenue and expenditures included in these financial statements related to OESP are as follows:

| | FY 2017 | FY 2016 |
|---|---|---|
| Revenue: | | |
| Regulatory process costs - OESP | $4,279,913 | $11,881,381 |
| **Total revenue** | **$4,279,913** | **$11,881,381** |
| Expenses: | | |
| Consulting and professional | $1,137,825 | $9,307,740 |
| Publications, media and advertising | 3,047,102 | 2,432,368 |
| Other expenses | 94,986 | 141,273 |
| **Total expenses** | **$4,279,913** | **$11,881,381** |

# 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 16, 2017.

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 and Risk 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, 2017, and the statements of operations, changes in net financial 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 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 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 Financing Authority as at March 31, 2017 and the results of its operations, its change in net financial assets and its cash flow for the year then ended in accordance with Canadian public sector accounting standards.

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Toronto, Ontario
June 16, 2017

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

## ONTARIO FINANCING AUTHORITY
### Statement of Financial Position
**As at March 31, 2017**

| *( in thousands of dollars )* | | **2017** | | ***2016*** |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| Cash | $ | 21,664 | *$* | *18,400* |
| Due from agencies & related parties (Note 6) (c) | | 3,555 | | *3,088* |
| Due from the Province of Ontario | | 1,743 | | *1,919* |
| | | 26,962 | | *23,407* |
| **LIABILITIES** | | | | |
| Accounts payable and accrued liabilities | | 1,743 | | *1,919* |
| Due to the Province of Ontario | | 1,422 | | *1,346* |
| Deferred revenue (Note 3) | | 1,504 | | *1,551* |
| | | 4,669 | | *4,816* |
| **Net financial assets** | | **22,293** | | ***18,591*** |
| **NON-FINANCIAL ASSETS** | | | | |
| Tangible capital assets (Note 2) | | 1,196 | | *1,201* |
| Prepaid expenses | | 308 | | *350* |
| | | 1,504 | | *1,551* |
| **Accumulated surplus** | $ | **23,797** | *$* | ***20,142*** |

*See accompanying notes to financial statements.*

Approved on behalf of the Board of Directors:

Scott Thompson
Chair

Gadi Mayman
Chief Executive Officer

## ONTARIO FINANCING AUTHORITY
### Statement of Operations
**For the year ended March 31, 2017**

| *( in thousands of dollars )* | 2017 Budget | 2017 Actual | *2016 Actual* |
|---|---|---|---|
| **REVENUE** | | | |
| Cost recovery from the Province of Ontario (Note 4) | $ 21,326 | $ 18,280 | *$ 18,268* |
| Cost recovery from Agencies & related parties (Note 6) (c) | 4,861 | 4,841 | *4,753* |
| Amortization of deferred capital contributions (Note 3) | 881 | 831 | *782* |
| Interest revenue (Note 5) | 3,003 | 3,655 | *3,364* |
| | 30,071 | 27,607 | *27,167* |
| **EXPENSES** | | | |
| Salaries, wages and benefits | 21,250 | 19,257 | *19,098* |
| Administrative and general | 4,937 | 3,864 | *3,923* |
| Amortization of tangible capital assets (Note 3) | 881 | 831 | *782* |
| | 27,068 | 23,952 | *23,803* |
| **Annual surplus** | 3,003 | 3,655 | *3,364* |
| **Accumulated surplus at beginning of year** | 20,142 | 20,142 | *16,778* |
| **Accumulated surplus at end of year** | $ 23,145 | $ 23,797 | *$ 20,142* |

*See accompanying notes to financial statements.*

## ONTARIO FINANCING AUTHORITY
### Statement of Change in Net Financial Assets
**For the year ended March 31, 2017**

| *( in thousands of dollars )* | 2017 Budget | 2017 Actual | *2016 Actual* |
|---|---|---|---|
| **Annual Surplus** | $ 3,003 | $ 3,655 | *$ 3,364* |
| Acquisition of tangible capital assets (Note 3) | (865) | (826) | *(722)* |
| Amortization of tangible capital assets (Note 3) | 881 | 831 | *782* |
| Prepaid expenses | – | 42 | *22* |
| **Change in net financial assets** | 3,019 | 3,702 | *3,446* |
| **Net financial assets at beginning of year** | 18,591 | 18,591 | *15,145* |
| **Net assets at end of year** | $ 21,610 | $ 22,293 | *$ 18,591* |

*See accompanying notes to financial statements.*

## ONTARIO FINANCING AUTHORITY
### Statement of Cash Flow
**For the year ended March 31, 2017**

| *( in thousands of dollars )* | | 2017 | | *2016* |
|---|---|---|---|---|
| **Operating transactions** | | | | |
| Annual Surplus | $ | 3,655 | *$* | *3,364* |
| Amortization of Tangible Capital Assets | | 831 | | *782* |
| Increase in due from agencies & related parties | | (467) | | *(247)* |
| Decrease/ (Increase) in due from the Province | | 176 | | *(122)* |
| (Decrease)/ Increase in Accounts Payable | | (176) | | *122* |
| Decrease in prepaid expenses | | 42 | | *22* |
| Increase in recoveries payable to the Province | | 76 | | *5* |
| Decrease in deferred revenue | | (47) | | *(82)* |
| **Cash provided by operating transactions** | | 4,090 | | *3,844* |
| **Capital transactions** | | | | |
| Cash used to acquire tangible capital assets | | (826) | | *(722)* |
| **Cash applied to capital transactions** | | (826) | | *(722)* |
| **Increase in cash** | | 3,264 | | *3,122* |
| **Cash at beginning of year** | | 18,400 | | *15,278* |
| **Cash at end of year** | **$** | **21,664** | ***$*** | ***18,400*** |

*See accompanying notes to financial statements.*

# ONTARIO FINANCING AUTHORITY

## Notes to Financial Statements

**For the year ended March 31, 2017**

## 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 centralized financial services for the Province including banking and cash management;
- 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; and
- carries out the day-to-day operations of Ontario Electricity Financial Corporation (OEFC) and provides a broad range of financial services to Ontario Infrastructure and Lands Corporation (Infrastructure Ontario).

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

(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) **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 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.

**(c) 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 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: useful life of tangible capital assets, accruals and the accrued benefit obligation. 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.

**(d) Accounts Payable and Accrued Liabilities**: Accounts payable relate to normal business transactions with third-party vendors and are subject to standard commercial terms. Accrued liabilities relate to accruals for salaries and benefits.

**(e) Revenue and Expenses**: OFA is funded from the Consolidated Revenue Fund (CRF) as part of Treasury Program. OFA can charge fees subject to statutory and regulatory authority and it earns revenues from public bodies outside of the CRF; the OFA retains revenues earned from the interest rate spread on its loans to public bodies.

**(f) Financial Instruments**: The OFA's financial assets and liabilities are accounted for as follows:

- Cash is subject to an insignificant risk of change in value so carrying value approximates fair value; and

- Accounts receivable, Due from Agencies & related parties, Due from the Province of Ontario, accounts payable, Due to the Province of Ontario and Deferred Revenue are recorded at cost.

The OFA does not use derivative financial instruments on its own behalf.

## 2. TANGIBLE CAPITAL ASSETS

Year ended March 31, 2017

| *(in thousands of dollars)* | Computer Hardware | Leasehold Improvements | Furniture and Equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Opening balance, April 1, 2016 | $13,650 | $1,833 | $1,093 | $16,576 |
| Additions | 768 | 25 | 33 | 826 |
| Disposals | (392) | – | – | (392) |
| Closing balance, March 31, 2017 | 14,026 | 1,858 | 1,126 | 17,010 |
| **Accumulated Depreciation** | | | | |
| Opening balance, April 1, 2016 | 12,702 | 1,608 | 1,065 | 15,375 |
| Amortization | 638 | 182 | 11 | 831 |
| Disposals | (392) | – | – | (392) |
| Closing balance, March 31, 2017 | 12,948 | 1,790 | 1,076 | 15,814 |
| **Net Book Value, March 31, 2017** | $1,078 | $68 | $50 | $1,196 |

Year ended March 31, 2016

| *(in thousands of dollars)* | Computer Hardware | Leasehold Improvements | Furniture and Equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Opening balance, April 1, 2015 | $13,072 | $1,833 | $1,068 | $15,973 |
| Additions | 697 | – | 25 | 722 |
| Disposals | (119) | – | – | (119) |
| Closing balance, March 31, 2016 | 13,650 | 1,833 | 1,093 | 16,576 |
| **Accumulated Depreciation** | | | | |
| Opening balance, April 1, 2015 | 12,227 | 1,428 | 1,057 | 14,712 |
| Amortization | 594 | 180 | 8 | 782 |
| Disposals | (119) | – | – | (119) |
| Closing balance, March 31, 2016 | 12,702 | 1,608 | 1,065 | 15,375 |
| **Net Book Value, March 31, 2016** | $948 | $225 | $28 | $1,201 |

## 3. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province for the acquisition of tangible capital assets as well as 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** | $ 1,201 | $ 350 | $ 1,551 |
| **Additions** | 826 | 548 | 1,374 |
| **Amortization** | (831) | – | (831) |
| **Expensed in the current year** | – | (590) | (590) |
| **Balance, end of year** | $ 1,196 | $ 308 | $ 1,504 |

Amortization of $831,000 represents the offset to the contributions received for the purchase of tangible capital assets. The $590,000 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 on behalf of the Province amounting to $332.4 billion, as at March 31, 2017 (2016 Actual – $327.4 billion) as per the interim projection published in the 2017 Annual Budget. The OFA also manages investments amounting to $44.4 billion as at March 31, 2017 (2016 – $47.0 billion) including $19.9 billion (2016 – $18.6 billion) under the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the *Ontario Nuclear Funds Agreement (ONFA)*. 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, 2017 was $18.3 million (2016 – $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 $16.9 billion expiring from 2036 to 2044. Principal repayments received from public bodies by the

OFA are forwarded to the Province. The interest rates charged to public bodies is generally 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, 2017, $3.7 million in interest rate spread revenue was recognized (2016 – $3.4 million) of which $2.1 million in receivable at year end (2016 – $1.7 million).

As at March 31, 2017, the principal amounts receivable by the OFA on behalf of the Province represent long term and short term loans. Interest accrued on the outstanding loans listed below, amounted to $93.9 million (2016 – $93.6 million), of which $92.7 million (2016 – $92.6 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, 2017** | *March 31, 2016* |
|---|---|---|
| Centennial Centre of Science and Technology | $ – | *$ 500* |
| Colleges of Applied Art and Technologies | 320,653 | *221,450* |
| Corporation of the City of Windsor | 8,171 | *9,916* |
| Independent Electricity System Operator | 81,209 | *–* |
| Niagara Parks Commission | 4,553 | *4,876* |
| Ontario Lottery and Gaming Corporation | 33,769 | *34,085* |
| Ottawa Convention Centre Corporation | 48,016 | *45,872* |
| Ontario Northland Transportation Commission | 2,564 | *2,950* |
| Royal Ontario Museum | 26,000 | *30,145* |
| School Boards | 5,473,075 | *5,611,958* |
| University of Ontario Institute of Technology | 5,501 | *10,611* |
| **Total** | **$ 6,003,511** | ***$ 5,972,364*** |

**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 loan made to fund the construction of the Agents of Change project matured in March 2017 and has been repaid in full.

Colleges of Applied Art and Technologies have been loaned $320.7 million (2016 – $221.5 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 0.90 per cent to 5.75 per cent and mature from 2018 to 2042.

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 $8.2 million (2016 – $9.9 million).

The Independent Electricity System Operator (IESO) has been provided a maximum $975 million credit facility to primarily fund the Regulated Price Plan variance account. This credit facility has been extended until November 30, 2019. IESO has drawn $81.2 million from this facility as of March 31, 2017 bearing an interest rate of 0.83 per cent and maturing on April 24, 2017.

The Niagara Parks Commission, a Crown agency of the Province, operating under the *Niagara Parks Act, 1990*, has been provided a loan of $4.6 million (2016 – $4.9 million) to finance additional capital costs incurred for the redevelopment of phase I of Table Rock House in Queen Victoria Park, Niagara Falls. This loan bears interest at 5.07 per cent and matures in April 2027.

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 totalling $33.8 million (2016 – $34.1 million) to fund several projects, bearing interest at rates ranging from 0.98 to 2.32 per cent and maturing from October 2017 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 $2.6 million (2016 – $2.9 million) matures from 2020 to 2031 and bears interest ranging from 4.90 to 5.22 per cent.

Ottawa Convention Centre Corporation (OCC) is a Crown agency of the Province governed under the *Ottawa Convention Centre Corporation Act, 1988*, and has been provided a loan of $48.0 million (2016 – $45.9 million) for the purpose of providing 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 $8.0 million.

The Royal Ontario Museum (ROM) is a Crown agency of the Province under a Special Act of the Ontario Legislature and has borrowed $26.0 million (2016 – $30.1 million) bearing floating rate interest, currently set at 2.27 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, 2017, school boards were provided with additional loans and made semi-annual blended payments of principal and interest, leaving the total outstanding amount at $5,473.0 million (2016 – $5,611.9 million). These loans bear interest ranging from 2.43 to 5.38 per cent and mature from 2019 to 2042. The School Board loan program has been gradually replaced by a Ministry of Education capital grant facility model. Since April 1, 2017, this new funding model fully replaced the need for capital loans from the OFA. School Boards will however, continue to make interest and principal payments until all outstanding balances are paid off.

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 five-year term loan of $5.5 million (2016 – $10.6 million) bearing an interest rate at 2.77 per cent and maturing 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
Northern Ontario Heritage Fund
Ontario Capital Growth Corporation
Pension Benefits Guarantee Fund
Ontario Immigrant Investor Corporation
Ontario Infrastructure and Lands Corporation
Ontario Trillium Foundation

Investments managed on behalf of these entities totalled $1,904 million at March 31, 2017 (2016 – $2,733 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 $20.4 billion (2016 – $24.3 billion).

**Ontario Infrastructure and Lands Corporation (OILC)**
The OFA provides borrowing and other financial services and advice on a cost recovery basis to OILC and manages its debt of approximately $3.7 billion at March 31, 2017 (2016 – $4.4 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, 2017 are set out below:

*(in thousands of dollars)*

| | March 31, 2017 | *March 31, 2016* |
|---|---|---|
| **Costs Recovered:** | | |
| OEFC | $ 3,765 | *$ 3,684* |
| OILC | 740 | *750* |
| Investment Management | 336 | *319* |
| **Total** | $ 4,841 | *$ 4,753* |
| **Receivables:** | | |
| OEFC | $ 1,070 | *$ 1,041* |
| OILC | 187 | *187* |
| Investment Management | 180 | *132* |
| Interest Rate Spread (Note 5) | 2,118 | *1,728* |
| **Total** | $ 3,555 | *$ 3,088* |

## 7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The main risks that the OFA'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 5 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 into which it has entered. This 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 OFA will not be able to meet its cash flow obligations as they fall due. The OFA'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 OFA. The OFA is not exposed to market risk.

**8. FUTURE EMPLOYEE BENEFITS**

*(a) Pension Benefits*

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan (PSPP), which is a multi-employer defined benefit pension plan established by the Province of Ontario. The Ministry of Government and Consumer Services (MGCS) 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 MGCS and is not reported in these financial statements.

*(b) Accrued Employee Benefits Obligation*

The legislated severance entitlement upon retirement for the Association of Management, Administrative and Professional Crown Employees of Ontario (AMAPCEO), excluded employees, management-excluded employees and other Management employees who retire after January 1, 2016, will be paid based on the salary in effect on December 31, 2015. The legislated severance entitlement upon retirement for the Ontario Public Service Employee Union (OPSEU), excluded employees who retire after January 1, 2016, will be paid based on the salary in effect on December 31, 2016.

For all other employees subject to terms set out in collective agreements who have completed five years of service, the OFA provides termination pay equal to one week's salary for each year of service up to a maximum of 50 percent of their annual salary.

The costs of this legislated severance entitlements earned by AMAPCEO and OPSEU, excluded employees, management excluded employees, management employees as at March 31, 2017 amounted to $3,918,000 (2016 – $4,076,000). In addition, the unused vacation entitlements earned by all employees as at March 31, 2017 amounted to $757,000 (2016 – $624,000).

On an ongoing basis, MGCS is responsible for funding the legislated severance entitlements, as well as unused vacation entitlements and accordingly no additional expense or liability is reported in these financial statements. Accrued employee benefits obligation is recorded at cost on the entitlements earned by employees up to March 31, 2017. A fair value estimate based on actuarial assumptions about when these benefits will actually be paid has not been made, as it is not expected that there would be a significant difference from the recorded amount.

## 9. COMMITMENTS AND CONTINGENCIES

**Lease Commitment:**

The OFA rents its premises under an operating lease which expires on June 30, 2017. The lease agreement has been extended for another 5 years and the minimum base rental payments for the lease are as follows:

*(in thousands of dollars)*

| | March 31, 2017 |
|---|---|
| 2018 | 876 |
| 2019 | 893 |
| 2020 | 952 |
| 2021 | 972 |
| 2022 | 972 |
| **Total** | **$4,665** |

OFA is committed to pay its proportionate share of realty taxes and operating expenses for the premises for the year ended March 31, 2017, which amounted to $999,900 (2016 – $1,133,000).

**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 $232.7 million. All principal and interest is required to be repaid by December 31, 2029. As of March 31, 2017, DICO had not utilized this credit facility.

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. As of March 31, 2017, OILC had not drawn any funds from this facility.

In the event fund are advanced under the above facilities they will be disclosed under Note 5 – Transactions with Public Bodies.

**Contingencies:**

At March 31, 2017, 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. 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, 2017, 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, 2017 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.

DocuSigned by:
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Glenn O'Farrell
President and Chief Executive Officer

DocuSigned by:
Lisa Larsen
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Lisa Larsen, CPA, CA
Director of Finance responsible for Financial, Legal and Administrative Services

Toronto, Ontario
June 16, 2017

**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, 2017, 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 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.

Marcil Lavallée

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Comptables professionnels agréés
Chartered Professional Accountants

BHD / IAPA
Nos partenaires canadiens et internationaux
Our Canadian and International Partners

Marcil-Lavallee.ca

*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, 2017, 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.

Marcil Lavallée

Chartered Professional Accountants, Licensed Public Accountant

Ottawa, Ontario
June 16, 2017

Marcil Lavallée

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**STATEMENT OF FINANCIAL POSITION**
**MARCH 31, 2017**

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash | **$ 6,301,711** | $ 8,100,698 |
| Accounts receivable (Note 4) | **2,458,310** | 2,707,384 |
| Prepaid expenses | **1,049,600** | 1,063,080 |
| | **9,809,621** | 11,871,162 |
| **RESTRICTED CASH** (Note 5) | **3,486,866** | 3,853,117 |
| **BROADCASTING RIGHTS** (Note 6) | **15,508,462** | 17,941,907 |
| **IN-HOUSE PROGRAMMING** (Note 7) | **19,557,126** | 20,241,936 |
| **ASSET – EMPLOYEE FUTURE BENEFITS** (Note 8) | **2,232,286** | 1,326,200 |
| **CAPITAL ASSETS** (Note 9) | **8,535,918** | 9,179,376 |
| | **49,320,658** | 52,542,536 |
| | **$ 59,130,279** | $ 64,413,698 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**STATEMENT OF FINANCIAL POSITION**

**MARCH 31, 2017**

| | 2017 | 2016 |
|---|---|---|
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued liabilities (Note 10) | **$ 5,280,554** | $ 7,325,272 |
| Deferred contributions (Note 11) | **1,178,978** | 2,142,482 |
| | **6,459,532** | 9,467,754 |
| **LIABILITY – EMPLOYEE FUTURE BENEFITS** (Note 8) | **2,214,700** | 2,011,500 |
| **DEFERRED CONTRIBUTIONS – BROADCASTING RIGHTS** (Note 12) | **16,007,540** | 18,118,630 |
| **DEFERRED CONTRIBUTIONS – IN-HOUSE PROGRAMMING** (Note 13) | **19,557,126** | 20,241,936 |
| **DEFERRED CONTRIBUTIONS – CAPITAL ASSETS** (Note 14) | **9,833,192** | 10,183,651 |
| | **47,612,558** | 50,555,717 |
| | **54,072,090** | 60,023,471 |
| **NET ASSETS** | | |
| Internal Restrictions (Note 5) | | |
| - TFO Fund | **1,519,008** | 1,519,008 |
| - Pension Fund | **-** | 323,400 |
| Unrestricted | **3,539,181** | 2,547,819 |
| | **5,058,189** | 4,390,227 |
| | **$ 59,130,279** | $ 64,413,698 |

ON BEHALF OF THE BOARD

DocuSigned by:
Michel Paulin

President of the Board

President of the Finance and Audit Committee

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

### STATEMENT OF OPERATIONS
### FOR THE YEAR ENDED MARCH 31, 2017

| | 2017 | 2016 |
|---|---|---|
| **REVENUE** | | |
| Contributions | | |
| - Operating grants (Note 15) | **$ 16,805,450** | $ 14,887,026 |
| - Funding for special projects (Note 16) | **1,058,698** | 688,091 |
| - Corporate and government (Note 17) | **3,251,838** | 3,274,337 |
| Other revenue (Note 18) | **3,107,333** | 3,699,154 |
| Amortization of deferred contributions | | |
| - Broadcasting rights (Note 12) | **6,578,952** | 6,900,055 |
| - In-house programming (Note 13) | **10,147,202** | 8,776,155 |
| - Capital assets (Note 14) | **2,809,779** | 2,656,653 |
| | **43,759,252** | 40,881,471 |
| **EXPENSES** | | |
| Content and programming | **9,849,393** | 10,456,090 |
| Production and technology | **5,816,382** | 4,898,444 |
| Administration | **7,908,988** | 6,638,570 |
| Write-off of capital assets | **409,101** | - |
| Amortization of broadcasting rights | **6,578,952** | 6,900,055 |
| Amortization of in-house programming | **10,147,202** | 8,776,155 |
| Amortization of capital assets | **2,809,779** | 2,656,653 |
| Employee future benefits | **274,379** | 454,764 |
| | **43,794,176** | 40,780,731 |
| **EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE NET ACTUARIAL GAINS ON EMPLOYEE FUTURE BENEFITS PLANS** | **(34,924)** | 100,740 |
| Net actuarial gains – Employee future benefits plans | **702,886** | 10,400 |
| **EXCESS OF REVENUE OVER EXPENSES** | **$ 667,962** | $ 111,140 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**STATEMENT OF CHANGES IN NET ASSETS**
**FOR THE YEAR ENDED MARCH 31, 2017**

| | **Internal Restrictions** (Note 5) | | | | |
|---|---|---|---|---|---|
| | **TFO Fund** | **Pension Fund** | **Unrestricted** | **2017 Total** | 2016 Total |
| **BALANCE, BEGINNING OF YEAR** | **$ 1,519,008** | **$ 323,400** | **$ 2,547,819** | **$ 4,390,227** | $ 4,279,087 |
| Excess of revenue over expenses | **-** | **-** | **667,962** | **667,962** | 111,140 |
| Restriction – Pension Plan | **-** | **(323,400)** | **323,400** | **-** | - |
| **BALANCE, END OF YEAR** | **$ 1,519,008** | **$ -** | **$ 3,539,181** | **$ 5,058,189** | $ 4,390,227 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

### STATEMENT OF CASH FLOWS
### FOR THE YEAR ENDED MARCH 31, 2017

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Excess of revenue over expenses | **$ 667,962** | $ 111,140 |
| **Adjustments for:** | | |
| Amortization of broadcasting rights | **6,578,952** | 6,900,055 |
| Amortization of in-house programming | **10,147,202** | 8,776,155 |
| Amortization of capital assets | **2,809,779** | 2,656,653 |
| Net actuarial gains – Employee future benefits Plan | **(702,886)** | (10,400) |
| Amortization of deferred contributions – broadcasting rights | **(6,578,952)** | (6,900,055) |
| Transfer – deferred contributions – broadcasting rights | **(204,850)** | (2,224,719) |
| Amortization of deferred contributions – in-house programming | **(10,147,202)** | (8,776,155) |
| Amortization of deferred contributions – capital assets | **(2,809,779)** | (2,656,653) |
| Transfer – deferred contributions capital assets | **(4,275)** | (986,432) |
| Loss on write-off of capital assets | **409,101** | - |
| | **165,052** | (3,110,411) |
| Net change in non-cash working capital items (Note 3) | **(2,745,668)** | (1,357,131) |
| Programming grant | **4,672,712** | 9,334,061 |
| In-house programming grant | **9,462,392** | 10,271,708 |
| Capital grant | **2,463,595** | 2,865,977 |
| | **14,018,083** | 18,004,204 |
| **INVESTING ACTIVITIES RELATED TO CAPITAL ASSETS AND INTANGIBLE ASSETS** | | |
| Acquisition of broadcasting rights | **(4,145,507)** | (8,130,728) |
| Acquisition of in-house programming | **(9,462,392)** | (10,271,708) |
| Net acquisition of capital assets | **(2,591,488)** | (2,861,662) |
| Proceeds from disposal of capital assets | **16,066** | - |
| | **(16,183,321)** | (21,264,098) |
| **NET INVESTING ACTIVITY** | | |
| Net change in restricted cash | **366,251** | 2,593,112 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(1,798,987)** | (666,782) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | **8,100,698** | 8,767,480 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **$ 6,301,711** | $ 8,100,698 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

### 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 is an independent French language broadcasting network and a charitable organization under the Income Tax Act and, as such, is 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 (PSAS-GNFPO). The Authority has elected to apply Section SP 4200 series for government not-for-profit organizations. The accounting policies are set out below:

**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 revenues and expenses for the periods covered. Actual amounts could differ from these estimates. The main estimates relate to the useful life of capital assets, broadcasting rights and capitalized in-house programming costs. Estimates also include the basis of allocating expenses used to capitalize the portion of the salaries and other expenses related to in-house programming. Estimates also include assets and liabilities related to employee future benefits.

The main items for which significant estimates were made are the defined benefits assets and liabilities for the accrued benefit pension plan and other retirement benefits plan. To estimate these amounts, management is required to make various assumptions that it considers reasonable, including with respect to inflation rates, discount rates and mortality rates. Management also takes into account future salary increases and the retirement age of employees. Any changes to the assumptions could have a significant impact on the Authority's results and financial position. The staff pension benefit expense could increase or decrease in upcoming years.

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Contribution receivable**

A contribution receivable is recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

**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 (in-house programming) 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.

Contributions which are, explicitly or implicitly, externally restricted for specific expenses to be incurred in future years (in-house programming and others) 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.

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue recognition (continued)**

*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 would have obtained the supplies and services for its regular operations in another manner. Contributions received in the form of supplies and services are recorded at the fair value of the supplies and services received. When the fair value of the supplies and services received cannot be reasonably determined, the contributions are recognized at the fair value of the supplies and services transferred.

**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, accounts receivable and restricted cash.

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, 2017**

**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.

**In-house programming, broadcasting rights and production costs**

In-house programming, broadcasting rights 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 using the straight-line method over a period of four years 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.

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 over the following periods:

| | **Periods** |
|---|---|
| Mobility (tablets and smart phones) | 2 years |
| Office equipment | 3 years |
| Office infrastructure | 4 years |
| Computerized production equipment | 5 years |
| Production equipment | 7 years |
| Office furniture and equipment | 10 years |
| Leasehold improvements | Duration of the lease |

**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.

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 expenses relating to non-monetary assets and liabilities, which are translated at the historical rate. Exchange gains and losses are recognized in the current year's operations.

**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, 2017**

### 3. NET CHANGE IN NON-CASH WORKING CAPITAL ITEMS

| | 2017 | 2016 |
|---|---|---|
| Accounts receivable | **$ 249,074** | $ (191,877) |
| Prepaid expenses | **13,480** | 11,597 |
| Accounts payable and accrued liabilities | **(2,044,718)** | 2,498,791 |
| Deferred contributions | **(963,504)** | (3,675,642) |
| | **$ (2,745,668)** | $ (1,357,131) |

### 4. ACCOUNTS RECEIVABLE

| | 2017 | 2016 |
|---|---|---|
| Ministry of Education | **$ 43,631** | $ 36,207 |
| Governments and government agencies | **594,332** | 646,965 |
| Subscriptions (cable broadcasting and educational subscriptions) | **200,049** | 396,591 |
| Commodity taxes | **886,714** | 1,271,498 |
| Others | **733,584** | 356,123 |
| | **$ 2,458,310** | $ 2,707,384 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

### 5. RESTRICTED CASH

| | **2017** | 2016 |
|---|---|---|
| Reserves | | |
| - Capital renewal [a] | **$ 1,000,000** | $ 1,000,000 |
| - Pension Fund [b] | **-** | 863,400 |
| - TFO Fund [c] | **1,519,008** | 1,519,008 |
| - Broadcasting rights [d] | **400,000** | - |
| - Transition | **55,011** | 87,734 |
| - AODA [e] | **116,495** | 201,977 |
| Commitments | | |
| - Broadcasting rights | **99,078** | 176,723 |
| - Capital assets | **297,274** | 4,275 |
| | **$ 3,486,866** | $ 3,853,117 |

[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] During the year, all amounts allocated to the Pension Fund were transferred to the TFO Pension Plan as additional contributions.

[c] During the 2008-2009 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 fiscal year 2016-2017, $400,000 was specifically restricted for the acquisition of broadcasting rights for cinema content and educational content for children.

[e] Annually, a portion of the operating budget is specifically allocated to meet the requirements of the *Accessibility for Ontarians with Disabilities Act, 2005* (AODA). The balance of $116,495 was recognized as deferred revenue and as an addition to the restricted cash. This amount will be used during the year ended March 31, 2018.

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

### 6. BROADCASTING RIGHTS

| | 2017 Cost | 2017 Accumulated amortization | 2017 Net value |
|---|---|---|---|
| Broadcasting rights and completed productions | **$ 31,711,653** | **$ 19,948,549** | **$ 11,763,104** |
| Broadcasting rights written off during the year | **(8,164,321)** | **(8,164,321)** | **-** |
| | **23,547,332** | **11,784,228** | **11,763,104** |
| Work in progress | **3,745,358** | **-** | **3,745,358** |
| | **$ 27,292,690** | **$ 11,784,228** | **$ 15,508,462** |

| | 2016 Cost | 2016 Accumulated amortization | 2016 Net value |
|---|---|---|---|
| Broadcasting rights and completed productions | $ 64,677,995 | $ 49,713,269 | $ 14,964,726 |
| Broadcasting rights written off during the year | (36,343,672) | (36,343,672) | - |
| | 28,334,323 | 13,369,597 | 14,964,726 |
| Work in progress | 2,977,181 | - | 2,977,181 |
| | $ 31,311,504 | $ 13,369,597 | $ 17,941,907 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

### 7. IN-HOUSE PROGRAMMING

| | 2017 | | |
|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net value** |
| In-house programming | **$ 48,588,672** | **$ 29,031,546** | **$ 19,557,126** |
| In-house programming completely amortized and written off during the year | **(7,395,596)** | **(7,395,596)** | **-** |
| | **$ 41,193,076** | **$ 21,635,950** | **$ 19,557,126** |

| | 2016 | | |
|---|---|---|---|
| | Cost | Accumulated amortization | Net value |
| In-house programming | $ 43,456,880 | $ 23,214,944 | $ 20,241,936 |
| In-house programming completely amortized and written off during the year | (4,330,600) | (4,330,600) | - |
| | $ 39,126,280 | $ 18,884,344 | $ 20,241,936 |

# ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

## 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 retirement benefit plans, and cash contributed to its defined contribution plans, amount to $860,205 (2016: $834,430). In addition, the Authority made an exceptional contribution of $863,400 to the funded pension plan.

**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 as at March 31, 2017 and is a data extrapolation and evaluation based on the complete actuarial valuation dated March 31, 2014.

The next full actuarial valuation, as of March 31, 2017, is currently being prepared. The final actuarial valuation report was not available at the date of approval of the financial statements.

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

**8. ASSET AND LIABILITY – EMPLOYEE FUTURE BENEFITS (continued)**

**Reconciliation of the funded status of the benefit plans to amounts recorded in the financial statements**

| | **2017** | | |
|---|---|---|---|
| | **Funded Pension Benefit Plan** | **Other Unfunded Retirement Benefit Plans** | **Total** |
| Accrued benefit obligations | **$ 12,364,300** | **$ 1,780,400** | **$ 14,144,700** |
| Fair value of plan assets | **(15,897,000)** | **-** | **(15,897,000)** |
| Funded status – plan deficit (surplus) | **(3,532,700)** | **1,780,400** | **(1,752,300)** |
| Unamortized net actuarial gain (loss) | **1,300,414** | **434,300** | **1,734,714** |
| Accrued pension liability (asset) | **$ (2,232,286)** | **$ 2,214,700** | **$ (17,586)** |

| | 2016 | | |
|---|---|---|---|
| | Funded Pension Benefit Plan | Other Unfunded Retirement Benefit Plans | Total |
| Accrued benefit obligations | $ 11,991,600 | $ 2,066,100 | $ 14,057,700 |
| Fair value of plan assets | (13,604,500) | - | (13,604,500) |
| Funded status – plan deficit (surplus) | (1,612,900) | 2,066,100 | 453,200 |
| Unamortized net actuarial gain (loss) | 286,700 | (54,600) | 232,100 |
| Accrued pension liability (asset) | $ (1,326,200) | $ 2,011,500 | $ 685,300 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

**8. ASSET AND LIABILITY – EMPLOYEE FUTURE BENEFITS (continued)**

**Pension plan asset components**

At the measurement date of March 31, the pension plan assets consist of the following:

| | 2017 | 2016 |
|---|---|---|
| | % | % |
| Asset category | | |
| Equity securities | 60 | 60 |
| Debt securities | 40 | 40 |
| Other | - | - |
| | 100 | 100 |

**Employee future benefit costs recognized in the year and benefits paid**

| | 2017 | |
|---|---|---|
| | Pension Benefit Plan | Other Benefit Plans |
| Employee future benefits costs recognized | $ 547,400 | $ 227,400 |
| Benefits paid, reimbursements and transfers | $ 810,300 | $ 24,200 |

| | 2016 | |
|---|---|---|
| | Pension Benefit Plan | Other Benefit Plans |
| Employee future benefits costs recognized | $ 351,300 | $ 246,900 |
| Benefits paid, reimbursements and transfers | $ 315,700 | $ 17,500 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

**8. ASSET AND LIABILITY – EMPLOYEE FUTURE BENEFITS (continued)**

Employee future benefits costs recognized consists of the following:

| | Pension Benefit Plan | | Other Benefit Plans | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Current service benefits' costs | **$ 667,000** | $ 631,000 | **$ 151,600** | $ 166,000 |
| Amortization of net actuarial losses (gains) | **(30,200)** | (131,900) | **7,600** | 20,600 |
| Interest costs of pension benefits | **691,100** | 638,500 | **68,200** | 60,300 |
| Expected return on plan assets | **(780,500)** | (786,300) | **-** | |
| | **$ 547,400** | $ 351,300 | **$ 227,400** | $ 246,900 |

**Significant assumptions**

The significant assumptions used are as follows (weighted average):

| | 2017 | |
|---|---|---|
| | **Pension Benefit Plan** | **Other Benefit Plans** |
| | % | % |
| Accrued benefit obligations | | |
| Discount rate | **5.75** | **3.10** |
| Rate of compensation increase | | |
| Non-unionized employees | **1.50 until 2019** | - |
| Non-unionized employees | **2.50 2020 and after** | - |
| Unionized employees | **2.50 per year** | - |
| Employee future benefits costs | | |
| Discount rate | **5.70** | **3.20** |
| Expected long-term rate of return on plan assets | **5.70** | - |
| Rate of compensation increase | | |
| Non-unionized employees | **1.50 until 2019** | - |
| Non-unionized employees | **2.50 2020 and after** | - |
| Unionized employees | **2.50 per year** | - |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

**8. ASSET AND LIABILITY – EMPLOYEE FUTURE BENEFITS (continued)**

**Significant assumptions (continued)**

| | 2016 | |
|---|---|---|
| | Pension Benefit Plan | Other Benefit Plans |
| | % | % |
| Accrued benefit obligations | | |
| Discount rate | 5.70 | 3.20 |
| Rate of compensation increase: | | |
| Non-unionized employees | 1.50 until 2019 | - |
| Non-unionized employees | 2.50 2020 and after | - |
| Unionized employees | 2.50 per year | - |
| Employee future benefits costs | | |
| Discount rate | 5.70 | 2.80 |
| Expected long-term rate of return on plan assets | 5.70 | - |
| Rate of compensation increase: | | |
| Non-unionized employees | 1.50 until 2019 | - |
| Non-unionized employees | 2.50 2020 and after | - |
| Unionized employees | 2.50 per year | - |

The assumed health care cost trend rates are based on the following:

| | **2017** | 2016 |
|---|---|---|
| | **%** | % |
| Growth rate of health care costs | **5.46** | 5.46 |
| Prescription medication: | | |
| Initial health care cost trend rate | **6.5** | 6.5 |
| Cost trend rate declines to | **4.5** | 4.5 |
| Year that the rate reaches the rate it is assumed to remain at | **2030** | 2030 |
| Hospitalization cost, eye care, dental care and other medical care | **Between 0 and 5.00** | Between 0 and 5.00 |

**Defined contribution plan**

The total expense recognized in relation with the defined contribution plan amounts to $244,957 (2016: $226,900).

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**

**MARCH 31, 2017**

**9. CAPITAL ASSETS**

| | 2017 | | |
|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Net value** |
| Mobility | **$ 89,025** | **$ 44,148** | **$ 44,877** |
| Office equipment | **523,529** | **170,584** | **352,945** |
| Office infrastructure | **558,022** | **205,643** | **352,379** |
| Production equipment | **13,468,839** | **10,849,740** | **2,619,099** |
| Computerized production equipment | **11,301,493** | **8,637,794** | **2,663,699** |
| Office furniture and equipment | **1,773,743** | **851,495** | **922,248** |
| Leasehold improvements | **6,271,579** | **4,690,908** | **1,580,671** |
| | **$ 33,986,230** | **$ 25,450,312** | **$ 8,535,918** |

| | 2016 | | |
|---|---|---|---|
| | Cost | Accumulated amortization | Net value |
| Mobility | $ 63,256 | $ 10,243 | $ 53,013 |
| Office equipment | 488,870 | 4,579 | 484,291 |
| Office infrastructure | 558,022 | 105,630 | 452,392 |
| Production equipment | 12,333,868 | 10,302,172 | 2,031,696 |
| Computerized production equipment | 10,735,275 | 7,573,448 | 3,161,827 |
| Office furniture and equipment | 2,040,691 | 677,030 | 1,363,661 |
| Leasehold improvements | 5,726,954 | 4,094,458 | 1,632,496 |
| | $ 31,946,936 | $ 22,767,560 | $ 9,179,376 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

### 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2017 | 2016 |
|---|---|---|
| Trades payable and accrued charges | $ 4,000,957 | $ 6,361,116 |
| Accrued wages and benefits | 987,817 | 782,090 |
| Government remittances | 291,780 | 182,066 |
| | $ 5,280,554 | $ 7,325,272 |

### 11. DEFERRED CONTRIBUTIONS

| | 2017 | | |
|---|---|---|---|
| | Ministry of Education | Others | Total |
| ***Deferred Contributions*** | | | |
| Balance, beginning of year | $ 2,043,593 | $ 37,492 | $ 2,081,085 |
| Add: Amount received | 396,495 | 101,916 | 498,411 |
| Less: Amount recognized as revenue | (1,833,021) | (49,406) | (1,882,427) |
| Balance, end of year | 607,067 | 90,002 | 697,069 |
| ***Special projects*** | | | |
| Balance, beginning of year | 54,750 | 6,647 | 61,397 |
| Add: Amount received | 789,387 | 401,117 | 1,190,504 |
| Less: Amount recognized as revenue | (763,345) | (6,647) | (769,992) |
| Balance, end of year | 80,792 | 401,117 | 481,909 |
| **Total** | $ 687,859 | $ 491,119 | $ 1,178,978 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

### 11. DEFERRED CONTRIBUTIONS (continued)

| | 2016 | | |
|---|---|---|---|
| | Ministry of Education | Others | Total |
| ***Deferred contributions*** | | | |
| Balance, beginning of year | $ 5,655,970 | $ 76,023 | $ 5,731,993 |
| Add: Amount received | 1,507,300 | 46,490 | 1,553,790 |
| Less: Amount recognized as revenue | (5,119,677) | (85,021) | (5,204,698) |
| Balance, end of year | 2,043,593 | 37,492 | 2,081,085 |
| ***Special projects*** | | | |
| Balance, beginning of year | 72,132 | 14,000 | 86,132 |
| Add: Amount received | 276,357 | 320,000 | 596,357 |
| Less: Amount recognized as revenue | (293,739) | (327,353) | (621,092) |
| Balance, end of year | 54,750 | 6,647 | 61,397 |
| **Total** | $ 2,098,343 | $ 44,139 | $ 2,142,482 |

### 12. DEFERRED CONTRIBUTIONS – BROADCASTING RIGHTS

| | **2017** | 2016 |
|---|---|---|
| Balance, beginning of year | **$ 18,118,630** | $ 17,909,342 |
| Add: | | |
| Amount received this year – Ministry of Education | **3,694,426** | 8,331,561 |
| Amount received prior year – Ministry of Education | **-** | 1,002,000 |
| Amount received – Others | **978,286** | 500 |
| Less : | | |
| Transfer | **(204,850)** | (2,224,718) |
| Amortization – Amount recognized as revenue | **(6,578,952)** | (6,900,055) |
| Balance, end of year | **$ 16,007,540** | $ 18,118,630 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

### 13. DEFERRED CONTRIBUTIONS – IN-HOUSE PROGRAMMING

| | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | **$ 20,241,936** | $ 18,746,383 |
| Add: | | |
| Amount received – Ministry of Education | **8,678,754** | 9,541,708 |
| Amount received – Canadian Media Fund | **783,638** | 730,000 |
| Less: | | |
| Amortization – Amount recognized as revenue | **(10,147,202)** | (8,776,155) |
| Balance, end of year | **$ 19,557,126** | $ 20,241,936 |

### 14. DEFERRED CONTRIBUTIONS – CAPITAL ASSETS

| | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | **$ 10,183,651** | $ 10,960,759 |
| Add : | | |
| Amounts added to deferred contributions – Ministry of Education | **2,463,595** | 2,865,977 |
| Less : | | |
| Transfer | **(4,275)** | (986,432) |
| Amortization – Amount recognized as revenue | **(2,809,779)** | (2,656,653) |
| Balance, end of year | **$ 9,833,192** | $ 10,183,651 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

### 15. CONTRIBUTIONS – OPERATING GRANTS

| | 2017 | 2016 |
|---|---|---|
| ***Received in current year*** | | |
| Grant – core | **$ 15,235,943** | $ 11,640,739 |
| Grant – core – AODA | **657,300** | 657,300 |
| Grant – capital | **2,475,000** | 1,867,000 |
| Grant – broadcasting rights | **3,517,703** | 6,132,953 |
| Grant – in-house programming | **8,678,754** | 9,541,708 |
| ***Received in prior year*** | | |
| Capital | **4,275** | 986,432 |
| Broadcasting rights | **176,723** | 2,189,763 |
| AODA | **201,977** | 788,845 |
| Dedicated projects | **1,091,045** | 2,873,509 |
| ***Transfer to deferred contributions*** | | |
| Broadcasting rights | **(3,694,426)** | (8,331,561) |
| In-house programming | **(8,678,754)** | (9,541,708) |
| Capital assets | **(2,463,595)** | (2,865,977) |
| Dedicated projects | **(280,000)** | (850,000) |
| Dedicated projects – AODA | **(116,495)** | (201,977) |
| | **$ 16,805,450** | $ 14,887,026 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**

**MARCH 31, 2017**

**16. CONTRIBUTIONS – FUNDING FOR SPECIAL PROJECTS**

| | **2017** | | |
|---|---|---|---|
| | **Ministry of Education** | **Others** | **Total** |
| Funding received in current year | **$ 1,078,093** | **$ -** | **$ 1,078,093** |
| Funding recognized | **54,750** | **6,647** | **61,397** |
| Less: Deferred contributions | **(80,792)** | **-** | **(80,792)** |
| | **$ 1,052,051** | **$ 6,647** | **$ 1,058,698** |

| | 2016 | | |
|---|---|---|---|
| | Ministry of Education | Others | Total |
| Funding received in current year | $ 343,357 | $ 320,000 | $ 663,357 |
| Funding recognized | 293,739 | 327,353 | 621,092 |
| Less: Deferred contributions | (276,358) | (320,000) | (596,358) |
| | $ 360,738 | $ 327,353 | $ 688,091 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**

**MARCH 31, 2017**

### 17. CONTRIBUTIONS – CORPORATE AND GOVERNMENT

| | 2017 | 2016 |
|---|---|---|
| ***Ministry of Education*** | | |
| Funding received in current year | **$ 2,605,000** | $ 2,605,000 |
| ***Canada Media Fund*** | | |
| Funding received in current year | **1,605,099** | 1,305,756 |
| Less: Deferred contributions – in-house programming | **(783,638)** | (730,000) |
| Less: Deferred contributions – other | **(401,117)** | - |
| ***Other Ontario agencies*** | | |
| Funding received in current year | **982,632** | 1,255 |
| Funding recognized from prior years | **34** | 32,723 |
| Less: Deferred contributions – broadcasting rights | **(978,078)** | - |
| ***Other provinces*** | | |
| Funding received in current year | **137,589** | 54,295 |
| Funding recognized from prior years | **4,120** | 5,308 |
| Less: Deferred contributions | **-** | - |
| ***Corporate*** | | |
| Funding received in current year | **78,197** | - |
| Funding recognized from prior years | **2,208** | 500 |
| Less: Contributions deferred to the following year | **(208)** | (500) |
| | **$ 3,251,838** | $ 3,274,337 |

### 18. OTHER REVENUE

| | 2017 | 2016 |
|---|---|---|
| Signal subscriptions | **$ 2,069,093** | $ 2,521,551 |
| Promotion, donations and other | **447,361** | 599,135 |
| Sublease | **89,009** | 99,157 |
| Interest | **88,670** | 184,049 |
| Donations received in the form of services | **413,200** | 295,262 |
| | **$ 3,107,333** | $ 3,699,154 |

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

### 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.

### 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 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.

# ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**
**MARCH 31, 2017**

## 20. FINANCIAL INSTRUMENTS (continued)

*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, 2017, cash and cash equivalents in US dollars totalled USD $113,997 (CAD $151,623) (2016: USD $53,934 and CAD $70,044).

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.

*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, 2017, the Authority has a cash and cash equivalents and restricted cash balance of $9,788,577 (2016: $11,953,815). All the Authority's financial liabilities totalling $5,280,554 (2016: $7,325,272) have contractual maturities of less than 365 days.

## 21. CONTRACTUAL OBLIGATIONS

The Authority has entered into operating lease agreements, expiring August 31, 2027, which call for payments of $8,229,800 for the rental of office space. The minimum lease payments for the next five years are $730,400 for the year ended March 31, 2018, $755,400 for the year ended March 31, 2019, $753,820 for the year ended March 31, 2020, $777,300 for the year ended March 31, 2021 and $777,300 for the year ended March 31, 2022.

The Authority has entered into other operating lease agreements expiring in 2018-2019 which call for monthly lease payments of $22,480 for access to communication services. The minimum lease payments for the next two years amount to $397,460 for the year ended March 31, 2018 and $185,235 for the year ended March 31, 2019.

## ONTARIO FRENCH-LANGUAGE EDUCATIONAL COMMUNICATIONS AUTHORITY (OFLECA)

**NOTES TO THE FINANCIAL STATEMENTS**

**MARCH 31, 2017**

**21. CONTRACTUAL OBLIGATIONS (continued)**

As at March 31, 2017, the Authority had committed an amount of $5,124,670 for the purchase of broadcasting rights, of which $4,410,000 will be paid during the year ending March 31, 2018 and $714,670 during the year ending March 31, 2019.

As at March 31, 2017, the Authority had committed an amount of 297,274 for the purchase of capital assets for the 2017-2018 year.

The Authority has also entered into other contracts for an amount of $155,300, of which $108,712 will be paid during the 2017-2018 year.

**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, 2017, 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, 2017, 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)

**Ontario Immigrant Investor Corporation (OIIC)**
400 University Avenue 3rd Floor
Toronto, Ontario
M7A 2R9

Ontario

## 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 June 27, 2017.

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

Cindy Lam
Chair

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 Citizenship & Immigration

I have audited the accompanying financial statements of the Ontario Immigrant Investor Corporation, which comprise the statement of financial position as at March 31, 2017, 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, 2017 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 has ended its Immigrant Investor Program. The Corporation is expected to remain operational until it has repaid all provincial allocations of immigrant investors' funds to the Federal government, which is expected to occur by March 31, 2022.

Toronto, Ontario
June 27, 2017

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

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# Ontario Immigrant Investor Corporation

## Statement of Financial Position
## As at March 31, 2017

| | 2017 ($ 000) | 2016 ($ 000) |
|---|---|---|
| **FINANCIAL ASSETS** | | |
| Cash | 2,369 | 11,798 |
| Investments (Note 3) | 514,647 | 820,787 |
| Accounts receivable | 32 | 45 |
| | 517,048 | 832,630 |
| **LIABILITIES AND ACCUMULATED SURPLUS** | | |
| Accounts payable | 47,684 | 10,387 |
| Repayable Provincial Allocations (Note 4) | 444,257 | 708,712 |
| | 491,941 | 719,099 |
| **Net Financial Assets** | 25,107 | 113,531 |
| **Non-Financial Assets** | | |
| Deferred Commission Charges (Note 5) | 5,306 | 10,993 |
| Accumulated Surplus | 30,413 | 124,524 |

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, 2017

| | 2017 ($ 000) | 2016 ($ 000) |
|---|---|---|
| **Revenue** | | |
| Interest income | 12,859 | 18,284 |
| | 12,859 | 18,284 |
| **Expenses** (Note 7) | | |
| Amortization of deferred commission charges (Note 5) | 5,806 | 8,546 |
| Investment management fee (Note 3) | 1,164 | 1,579 |
| | 6,970 | 10,125 |
| **Excess of Revenue over Expenses** | 5,889 | 8,159 |
| **Accumulated Surplus, beginning of year** | 124,524 | 116,365 |
| **Payment to the Province of Ontario (Note 6)** | (100,000) | 0 |
| **Accumulated Surplus, end of year** | 30,413 | 124,524 |

See accompanying notes to financial statements.

# Ontario Immigrant Investor Corporation

## Statement of Changes in Net Financial Assets
## For the Year Ended March 31, 2017

| | 2017 ($ 000) | 2016 ($ 000) |
|---|---|---|
| Excess of Revenue Over Expenses | 5,889 | 8,159 |
| Deferred Commission Charges - Current Year | (119) | (456) |
| Amortization of Deferred Commission Charges | 5,806 | 8,546 |
| Payment to the Province of Ontario | (100,000) | - |
| **Increase/ Decrease in Net Financial Assets** | (88,424) | 16,249 |
| **Net Financial Assets, beginning of year** | 113,531 | 97,282 |
| **Net Financial Assets, end of year** | 25,107 | 113,531 |

See accompanying notes to financial statements.

# Ontario Immigrant Investor Corporation

## Statement of Cash Flows
## For the Year Ended March 31, 2017

| | 2017 ($ 000) | 2016 ($ 000) |
|---|---|---|
| **Cash provided by (used in) operating activities** | | |
| Interest received | 844 | 728 |
| Investment Management Fees paid | (1,260) | (1,708) |
| | (416) | (980) |
| **Cash (used in) provided by investing and financing activities** | | |
| Provincial allocations received net of commissions | 1,835 | 7,126 |
| Provincial allocations repaid | (228,729) | (248,010) |
| Provincial allocations refunded | (272) | (272) |
| | (227,166) | (241,156) |
| Investments matured | 1,226,570 | 657,460 |
| Investments purchased | (908,417) | (408,182) |
| Payment to the Province of Ontario | (100,000) | 0 |
| | 218,153 | 249,278 |
| **Net increase (decrease) in cash** | (9,429) | 7,142 |
| **Cash, beginning of year** | 11,798 | 4,656 |
| **Cash, end of year** | 2,369 | 11,798 |

See accompanying notes to financial statements.

# Ontario Immigrant Investor Corporation

## Notes to Financial Statements
## March 31, 2017

## 1. Nature and Future of the Corporation

The Ontario Immigrant Investor Corporation (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.

In February 2014, the Federal government announced the termination of the Immigrant Investor Program. Immigration, Refugees and Citizenship Canada (IRCC) is processing the remaining 10 applications; Ontario's share of this allocation would be approximately $1.97 million. However, IRCC has indicated that these applications may not be approved; therefore, the total remaining allocation may vary. Ontario is currently seeking to suspend receipt of monies from the federal government to enable the agency to meet the planned wind down date of 2021-2022. If approved, Ontario will not be expected to receive additional funds in fiscal year 2017/2018 and repayment to the immigrant investors will happen by March 2022. If the suspension is not approved, Ontario will expect to receive its share by the end of March 2018 with repayment to the immigrant investors after five years occurring by March 2023. Accordingly, the Corporation will remain operational until then to meet its obligations under the Immigrant Investor Program.

## 2. Significant Accounting Policies

### (A) BASIS OF ACCOUNTING

These financial statements have been prepared by management 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. The Corporation's financial assets and financial liabilities are accounted for as follows:

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.

# Ontario Immigrant Investor Corporation

## Notes to Financial Statements
## March 31, 2017

## 2. Significant Accounting Policies (continued)

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.

The Corporation does not use derivative financial instruments.

### (D) DEFERRED COMMISSION CHARGES

Commissions paid to intermediaries, for introducing new immigrant investors, are deferred and 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. 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.

## 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, fixed rate bonds were purchased to align maturity dates to the Provincial Allocations repayment schedule provided in Note 4. For fiscal year 2017, these fixed income securities had a weighted-average yield of 2.07% (2016- 2.53%).

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 significant portion 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 OILC's cost of borrowing for similar terms as determined by the Ontario Financing Authority. For fiscal year 2017, these promissory notes had a weighted average interest rate of 1.98% (2016 - 2.03%). As a result of the announced termination of the Immigrant Investor Program, there was a significant reduction in the provincial allocations and OILC stopped borrowing funds from the Corporation in August 2014.

Allocations not taken by OILC are placed in five year fixed income securities issued by the Province of Ontario. Upon maturation, investment funds and any surplus income are put into short-term 90 day rotational Treasury Bills to earn nominal interest until the date of repayment to the investors. For the fiscal year 2017, these Treasury Bills had a weighted average yield of 0.58% per annum (2016 - 0.64%).

# Ontario Immigrant Investor Corporation

## Notes to Financial Statements
## March 31, 2017

## 3. Investments (continued)

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.

The investments balance which includes accrued interest is broken down as follows:

| | March 31, 2017 Cost ($ 000) | March 31, 2017 Market ($ 000) | March 31, 2016 Cost ($ 000) | March 31, 2016 Market ($ 000) |
|---|---|---|---|---|
| OILC Promissory Notes | 377,448 | 356,019 | 573,887 | 546,443 |
| Fixed Income Bonds | 122,011 | 116,047 | 139,350 | 135,270 |
| Treasury Bills | 15,188 | 15,188 | 107,550 | 107,551 |
| | 514,647 | 487,254 | 820,787 | 789,264 |

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.

# Ontario Immigrant Investor Corporation

## Notes to Financial Statements
## March 31, 2017

## 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) |
|---|---|
| Due fiscal year 2018 | 91,314 |
| Due fiscal year 2019 | 263,860 |
| Due fiscal year 2020 | 79,962 |
| Due fiscal year 2021 | 7,154 |
| Due fiscal year 2022 | 1,967 |
| | 444,257 |

An investor's application for permanent residence may be withdrawn by the Investor or denied by the federal government. As at March 31, 2017 there are approximately $4.88M worth of applications in process. If any of these applications are withdrawn by the Investor or denied by the federal government the Provincial Allocation pertaining to the Investor is to be returned to the federal government within 30 days of receipt of request from the federal government.

## 5. Deferred Commission Charges

Deferred commission charges are comprised as follows:

| | 2017<br>($ 000) | 2016<br>($ 000) |
|---|---|---|
| Balance, beginning of year | 10,993 | 19,082 |
| Commissions – current year | 119 | 457 |
| Amortization | (5,806) | (8,546) |
| Balance, end of year | 5,306 | 10,993 |

## 6. Payment to the Province of Ontario

On May 12, 2016, the Board of Directors resolved to declare a payment of $100,000,000 to the Consolidated Revenue Fund of the Province of Ontario, under section 16.4 of the Financial Administration Act. The payment was made to the Province in March 2017.

## 7. 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, Employment & Infrastructure and the Ministry of Citizenship, Immigration & International Trade without charge.

# 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,

Ehren Cory
*President and Chief Executive Officer*

Krishnan Iyer
*Executive Vice President Lending and Chief Financial Officer*

June 22, 2017

## 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, 2017 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.

pwc

**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, 2017 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, Licensed Public Accountants**

# INFRASTRUCTURE ONTARIO
## STATEMENT OF FINANCIAL POSITION
### As at March 31
(in thousands of dollars)

| | | March 31 2017 | | March 31 2016 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents (Note 2) | **$** | **486,028** | $ | 1,133,337 |
| Accounts receivable (Note 3) | | **35,620** | | 40,900 |
| Interest receivable | | **45,906** | | 64,721 |
| Investment income receivable | | **1,779** | | 1,851 |
| Loans receivable (Note 4) | | **5,661,622** | | 5,225,176 |
| Derivatives (Note 5) | | **283,271** | | 406,576 |
| Projects receivable (Note 6) | | **45,086** | | 45,843 |
| Investments (Note 7) | | **177,505** | | 177,505 |
| | | **6,736,817** | | 7,095,909 |
| **Liabilities** | | | | |
| Accounts payable | | **3,891** | | 6,111 |
| Accrued liabilities | | **27,024** | | 27,668 |
| Liabilities held in trust (Note 18) | | **75,244** | | 248,258 |
| Interest payable | | **67,302** | | 73,892 |
| Derivatives (Note 5) | | **371,019** | | 554,354 |
| Deferred revenue | | **25,696** | | 16,839 |
| Debt - loan program (Note 9) | | **6,068,840** | | 6,144,550 |
| | | **6,639,016** | | 7,071,672 |
| **Net financial assets** | | **97,801** | | 24,237 |
| **Non-financial assets** | | | | |
| Tangible capital assets (Note 10) | | **1,934** | | 3,042 |
| | | **99,735** | | 27,279 |
| **Accumulated surplus** | | **187,483** | | 175,057 |
| **Accumulated re-measurement losses** | | **(87,748)** | | (147,778) |
| | **$** | **99,735** | $ | 27,279 |

Contingencies (Note 16)
Commitments (Note 17)

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

Approved

Board Chair

Director, Chair Audit Committee

# INFRASTRUCTURE ONTARIO
# STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
## For the year ended March 31
(in thousands of dollars)

| | 2017 Budget | **2017** | 2016 (Note 20) |
|---|---|---|---|
| **Revenues** | | | |
| Interest revenue (Note 11) | $ 217,801 | **$ 218,812** | $ 206,786 |
| Project delivery fees | 35,780 | **33,553** | 27,417 |
| Project transaction fees | 15,249 | **26,740** | 32,508 |
| Management fees | 55,043 | **54,633** | 52,469 |
| Recoverable advisory costs | - | **17,946** | 20,803 |
| Other income | 2,000 | **11,114** | 6,034 |
| | 325,873 | **362,798** | 346,017 |
| **Expenses** | | | |
| Salaries and benefits | 69,518 | **68,164** | 63,758 |
| General and administration (Note 12) | 21,323 | **19,386** | 19,311 |
| Program expenses | | | |
| Project transaction costs | 15,249 | **27,198** | 26,701 |
| Recoverable advisory costs | - | **17,946** | 20,803 |
| Interest expense (Note 11) | 196,780 | **196,769** | 190,623 |
| Sub-contracting fees | 9,855 | **9,678** | 9,781 |
| Loan valuation allowance | 10,000 | **11,231** | 15,492 |
| Project funding expenses | - | **-** | 48 |
| Total program expenses | 231,884 | **262,822** | 263,448 |
| | 322,725 | **350,372** | 346,517 |
| **Surplus / (deficit)** | 3,148 | **12,426** | (500) |
| **Accumulated surplus, beginning of year** | 175,057 | **175,057** | 175,557 |
| **Accumulated surplus, end of year** | $ 178,205 | **$ 187,483** | $ 175,057 |

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

# INFRASTRUCTURE ONTARIO
## STATEMENT OF RE-MEASUREMENT GAINS AND LOSSES
### For the year ended March 31
(in thousands of dollars)

| | 2017 | 2016 |
|---|---|---|
| **Accumulated re-measurement losses, beginning of year** | **$ (147,778)** | $ (132,061) |
| Realized losses - reclassified to the Statement of Operations | **39,562** | 41,138 |
| Re-measurement gains/(losses) | **20,468** | (56,855) |
| Net re-measurement gains/(losses) in the year | **60,030** | (15,717) |
| **Accumulated re-measurement losses, end of year** | **$ (87,748)** | $ (147,778) |

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)

| | 2017 | 2016 |
|---|---|---|
| Surplus/(deficit) | $ 12,426 | $ (500) |
| Acquisition of tangible capital assets | (514) | (958) |
| Amortization of tangible capital assets | 1,622 | 1,937 |
| Net re-measurement gains/(losses) in the year | 60,030 | (15,717) |
| **Net change in net financial assets** | 73,564 | (15,238) |
| **Net financial assets at beginning of year** | 24,237 | 39,475 |
| **Net financial assets at end of year** | $ 97,801 | $ 24,237 |

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)

| | | 2017 | | 2016 (Note 20) |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Surplus/(deficit) | $ | **12,426** | $ | (500) |
| Items not requiring a current cash outlay: | | | | |
| Loan valuation allowance | | **11,231** | | 15,492 |
| Amortization of deferred concession costs | | **(6,580)** | | (7,327) |
| Amortization of tangible capital assets | | **1,622** | | 1,937 |
| | | **18,699** | | 9,602 |
| Changes in non-cash working capital items: | | | | |
| Decrease in accounts receivable | | **5,280** | | 64,662 |
| Decrease/(increase) in interest receivable | | **18,815** | | (755) |
| Decrease in projects receivable | | **757** | | 18,360 |
| Decrease in accounts payable | | **(2,220)** | | (1,584) |
| Decrease in accrued liabilities | | **(644)** | | (6,927) |
| (Decrease)/increase in liabilities held in trust | | **(173,014)** | | 183,446 |
| (Decrease)/increase in deferred revenue | | **8,857** | | (3,052) |
| Cash (used in)/provided by operating activities | | **(123,470)** | | 263,752 |
| **Capital activities** | | | | |
| Acquisition of tangible capital assets | | **(514)** | | (958) |
| Cash used in capital activities | | **(514)** | | (958) |
| **Investing activities** | | | | |
| Decrease in investment income receivable | | **72** | | 322 |
| Proceeds from disposition of investments | | **-** | | 37,706 |
| Issuance of loans receivable | | **(810,290)** | | (771,786) |
| Loan repayments | | **369,193** | | 335,782 |
| Cash used in investing activities | | **(441,025)** | | (397,976) |
| **Financing activities** | | | | |
| (Decrease)/increase in interest payable | | **(6,590)** | | 1,194 |
| Repayment of OFA credit facility | | **-** | | (10,000) |
| Repayment of short term revolving credit facility | | **(115,000)** | | (250,000) |
| Debt issuances | | **819,408** | | 1,265,786 |
| Debt repayments | | **(780,118)** | | (823,288) |
| Cash (used in)/provided by financing activities | | **(82,300)** | | 183,692 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(647,309)** | | 48,510 |
| **Cash and cash equivalents, beginning of year** | | **1,133,337** | | 1,084,827 |
| **Cash and cash equivalents, end of year** | $ | **486,028** | $ | 1,133,337 |

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

# INFRASTRUCTURE ONTARIO
# NOTES TO FINANCIAL STATEMENTS
# March 31, 2017 and 2016

## NATURE OF THE CORPORATION

Ontario Infrastructure and Lands Corporation (Infrastructure Ontario, Agency, Corporation) is a Crown corporation reporting to the Minister of Infrastructure (Minister) and is classified by the Government of the Province of Ontario (Province, Government) 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 Minister with advice and services, including project management, contract management and development, related to public works for which the Minister is responsible;
- To provide the Government with advice and services, including project management, contract management and development, related to public works for which the Minister is not responsible, when directed to do so in writing by the Minister;
- 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 provide advice and services to the Minister or other members of the executive council, 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; and
- To provide advice and services, including 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.

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 is subject to Harmonized Sales Tax (HST).

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of accounting**
These financial statements are prepared in accordance with Canadian Public Sector Accounting standards established by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada).

**Management estimates**
The preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure 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 those 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 those 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 receivable, interest receivable, investment income receivable, loans receivable, derivatives, projects receivable, and investments. Infrastructure Ontario’s financial liabilities include accounts payable, accrued liabilities, interest payable, derivatives, and the debt supporting the loan program.

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

*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 on 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.

*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: valuation techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: valuation 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.

*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.

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

*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 anticipated value for a prolonged period of time. If the anticipated value of the portfolio investment subsequently increases, the write-down to the statement of operations is not reversed.

ii. *Loans receivable impairment*
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 general valuation allowance is underpinned by a model 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 specific valuation allowance is also established in instances of known borrower credit deterioration on the expected non-recoverable portion of the loan receivable.

**Cash and cash equivalents**
Cash and cash equivalents include cash on deposit with a maturity less than three months and highly liquid investments that can be readily convertible to cash.

**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 subsequently re-measured to 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 and Accumulated Surplus 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 lives of the assets beginning in the fiscal year of acquisition, with a half-year provision in the year of acquisition and a half-year in the year of disposal. The estimated useful lives of the assets are as follows:

| | |
|---|---|
| Computer equipment | 3 years |
| Software | 5 years |
| Furniture, fixtures and office equipment | 10 years |
| Leasehold improvements | 10 years |

**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 a tangible capital asset no longer contributes to the 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*
Interest on investments and loans receivable are recognized using the effective interest rate method.

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

*Project delivery fees and project transaction 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 collectibility 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. Deferred revenue is set up when amounts billed on a project exceed the revenue recognized under both cost based and fixed price contracts.

*Management fees and recoverable advisory costs*
Management fees and recoverable advisory costs are recognized as revenue when an arrangement is in place, services are provided and collectibility is reasonably assured.

## 2. CASH AND CASH EQUIVALENTS

| ($ thousands) | | **2017** | | 2016 |
|---|---|---|---|---|
| Cash | **$** | **486,028** | $ | 631,653 |
| Cash equivalents | | **-** | | 501,684 |
| | **$** | **486,028** | $ | 1,133,337 |

Cash includes funds held in trust for Infrastructure Ontario’s lending clients of $55.4 million (2016 - $220.3 million) and project construction consortiums of $19.8 million (2016 - $27.9 million), detailed further in Note 18.

Cash equivalents includes money market investments recorded at cost, which closely approximates fair value. The money market investments were liquidated during the year to repay $520 million of the Province of Ontario loan, detailed further in Note 9.

## 3. ACCOUNTS RECEIVABLE

| ($ thousands) | | **2017** | | 2016 |
|---|---|---|---|---|
| Trade accounts receivable | **$** | **34,713** | $ | 38,136 |
| HST receivable | | **907** | | 2,764 |
| | **$** | **35,620** | $ | 40,900 |

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

## 4. LOANS RECEIVABLE

| ($ thousands) | 2017 | | 2016 | |
|---|---|---|---|---|
| **Construction advances** | | | | |
| Infrastructure renewal loan program | $ **349,328** | | $ 413,515 | |
| **Debentures receivable** | | **Interest %** | | Interest % |
| Concessionary loan program | | | | |
| Maturity terms: | | | | |
| 6 to 10 years | **14,150** | **2.08-2.71** | 24,971 | 2.08-2.71 |
| 11 to 15 years | **25,385** | **2.28-2.67** | 30,687 | 2.28-2.67 |
| 16 to 20 years | **234,136** | **2.36-2.95** | 257,059 | 2.36-2.95 |
| Greater than 20 years | **58,536** | **2.52-3.05** | 61,337 | 2.52-3.05 |
| | **332,207** | | 374,054 | |
| Infrastructure renewal loan program | | | | |
| Maturity terms: | | | | |
| 1 to 5 years | **45,048** | **1.18-4.55** | 98,450 | 1.18-4.55 |
| 6 to 10 years | **665,754** | **1.52-5.73** | 595,603 | 1.52-5.73 |
| 11 to 15 years | **678,568** | **2.24-5.26** | 583,955 | 2.24-5.26 |
| 16 to 20 years | **1,411,196** | **2.71-5.89** | 1,268,622 | 2.71-5.89 |
| Greater than 20 years | **2,234,573** | **2.77-5.91** | 1,966,282 | 2.77-5.91 |
| | **5,035,139** | | 4,512,912 | |
| **Total** | **5,716,674** | | 5,300,481 | |
| **Deferred costs on concessionary loans** | | | | |
| Deferred costs, beginning of year | **(43,083)** | | (50,410) | |
| Amortization of concession costs | **6,580** | | 7,327 | |
| Deferred costs, end of year | **(36,503)** | | (43,083) | |
| Loan valuation allowance | **(18,549)** | | (32,222) | |
| **Loans receivable** | $ **5,661,622** | | $ 5,225,176 | |

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 a fixed spread in basis points depending on the risk categorization of the counterparty. These loans are of a shorter term than the debentures (usually less than five years), and are repaid when construction is complete.

Debentures receivable are due from municipalities, other public sector clients and not for profit entities, with loan maturity terms ranging from four to forty years since inception.

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 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 in some cases, provide loan insurance.

The loan valuation allowance is based on an assessment of existing economic, industry and portfolio conditions which may indicate that a loan is impaired or losses will be incurred. At March 31, 2017, Infrastructure Ontario has a loan valuation allowance of $18.5 million (2016 - $32.2 million).

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

## 5. DERIVATIVES

Infrastructure Ontario operates within strict risk limits to ensure exposure to interest rate risk is managed in a prudent and cost effective manner. A variety of strategies are used to manage this risk, including the use of interest rate derivatives. Infrastructure Ontario does not use derivatives for speculative purposes, and no new derivative contracts have been initiated since Infrastructure Ontario entered into back to back loans with the Province in April 2015 (Note 9).

Derivatives are financial contracts, the value of which is derived from underlying instruments. Infrastructure Ontario, which is a borrower and lender, uses derivatives to create 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 more closely match its existing loans receivable 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 loans receivable and fixed rate debt portfolio into floating rate instruments.

The table below presents a maturity schedule of Infrastructure Ontario's derivatives, outstanding as at March 31, 2017, 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 | | | | | |
|---|---|---|---|---|---|---|---|
| ($ thousands) | | Within 1 year | 2 to 5 Years | 6 to 10 Years | 11 to 15 Years | Over 15 Years | Total Notional Value |
| Debt | $ | 262,500 | 808,982 | 670,600 | - | 852,857 | 2,594,939 |
| Loans receivable | $ | 273,787 | 1,081,489 | 1,094,819 | 637,024 | 812,773 | 3,899,892 |

Derivatives are recorded at fair value as at March 31, 2017 resulting in derivative assets of $283.3 million, derivative liabilities of $371.0 million and accumulated unrealized losses on the Statement of Re-Measurement Gains and Losses of $87.7 million (2016 – derivative assets of $406.6 million, derivative liabilities of $554.4 million and accumulated unrealized losses on the Statement of Re-Measurement Gains and Losses of $147.8 million). Fair values for both were determined using level 2 basis of valuation as defined in Note 1.

The 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 the time value and yield curve 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.

As at March 31, 2017, all interest rate swap agreements are with the Province. In January 2017, a swap held with MaRS, a former borrower of the lending program, was cancelled through an arrangement with the Ministry of Research and Innovation, with no change to the surplus/deficit in the Statement of Operations and Accumulated Surplus.

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

## 6. PROJECTS RECEIVABLE

Projects receivable are amounts which have been recognized as revenue either on a percentage of completion method or when the recoverable expenses were incurred, but have not yet been invoiced. Certain projects receivable, will not be invoiced until the completion of the project. Projects receivable are due from various Provincial ministries, agencies and other public sector organizations.

## 7. INVESTMENTS

Investments consist of bonds carried at cost. As at March 31, 2017, the interest rates on these investments ranged from 2.10% to 4.40% (2016 – 2.10% to 4.40%) with maturities from September 2018 to June 2024.

## 8. OFA CREDIT FACILITY

OFA provided Infrastructure Ontario with a subordinated revolving credit facility of up to $200.0 million to provide working capital for project management and project delivery programs. Advances are to be repaid on completion of individual projects. As at March 31, 2017, the full balance of the credit facility remains undrawn.

## 9. DEBT – LOAN PROGRAM

| ($ thousands) | **2017** | **Interest %** | 2016 | Interest % |
|---|---|---|---|---|
| **Program funding** | | | | |
| **Senior debt** | | | | |
| Infrastructure Renewal Bonds | **$ 300,000** | **4.70** | $ 300,000 | 4.70 |
| **Subordinate debt** | | | | |
| Short-term revolving credit facility | **370,000** | **0.68-0.69** | 485,000 | 0.60-0.74 |
| Ontario Immigrant Investor Corporation loans | | | | |
| Fixed | **195,440** | **1.86-2.64** | 337,872 | 1.86-2.99 |
| Floating | **155,144** | **1.55** | 198,052 | 1.55 |
| OIPC/OILC bonds | | | | |
| Fixed | **2,315,000** | **2.02-4.96** | 2,355,000 | 2.02-4.96 |
| Floating Rate Notes | **300,000** | **1.10-1.16** | 300,000 | 1.06-1.12 |
| Long-term non-revolving credit facility | | | | |
| Fixed | **1,580,243** | **1.21-3.58** | 796,683 | 1.21-3.58 |
| Floating Rate Note | **460,000** | **1.39** | 460,000 | 1.35 |
| | **5,675,827** | | 5,232,607 | |
| Debt issue costs | **(6,668)** | | (7,738) | |
| **Capital funding** | | | | |
| Province of Ontario loan | **279,681** | **0.67** | 799,681 | 0.62 |
| Ontario Clean Water Agency loan | **120,000** | **0.91** | 120,000 | 0.87 |
| | **399,681** | | 919,681 | |
| | **$ 6,068,840** | | $ 6,144,550 | |

All capital funding and subordinated debt is subordinate to the senior debt and rank pari passu amongst each other.

# INFRASTRUCTURE ONTARIO
# NOTES TO FINANCIAL STATEMENTS
# March 31, 2017 and 2016

**Infrastructure Renewal Bonds**
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.

**Short-term Revolving Credit Facility**
Effective May 2014, Infrastructure Ontario issues short term notes under a short term revolving credit facility to fund its short term construction loans. The revolving credit facility with the Province is authorized to issue a maximum of $900 million for terms ranging from three months to one year. As at March 31, 2017, maturities ranged from April 3, 2017 to June 15, 2017, while interest on the notes ranged from 0.68% to 0.69% (2016 – 0.60% to 0.74%).

**Ontario Immigrant Investor Corporation Loans**
Ontario Immigrant Investor Corporation (OIIC), an agency of the Province, provided five-year subordinated loans. The loans are subordinated obligations of Infrastructure Ontario and rank behind all other existing and future senior obligations and unsecured public debt of Infrastructure Ontario.

As at March 31, 2017, interest on fixed rate bonds ranged between 1.86% and 2.64% (2016 –1.86% to 2.99%) compounded semi-annually and paid on maturity. Maturities ranged from April 2017 to July 2019. Interest on bonds bearing a variable rate of interest is reset and compounded quarterly with a floor rate of 1.55% (2016 – 1.55%) per annum. Maturities ranged from April 2017 to January 2019.

**OIPC / OILC Bonds**
Infrastructure Ontario issued Ontario Infrastructure Projects Corporation (OIPC) and Ontario Infrastructure and Lands Corporation (OILC) bonds to the Province for the purpose of funding its loan program. The bonds are subordinated obligations of Infrastructure Ontario and rank behind all other existing and future senior obligations and unsecured public debt of Infrastructure Ontario.

As at March 31, 2017, interest on fixed rate bonds ranged from 2.02% to 4.96% (2016 – 2.02% to 4.96%) per annum and maturities ranged from September 2017 to June 2045. Interest is paid semi-annually on these bonds until maturity. The Floating Rate Notes (FRN) bear interest from three month 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.

**Long-term Non-Revolving Credit Facility**
In April 2015, Infrastructure Ontario began funding long term loans on a back to back basis directly with the Province through a long term non-revolving credit facility. The new debt structures mirror the underlying loans receivable they fund and have similar terms including maturity, payment frequency and type of amortization. This funding structure creates a match between the assets and liabilities and eliminates the need to use derivatives to hedge interest rate risks. In November 2016, Infrastructure Ontario was approved to borrow an additional $2.5 billion from the Province for the purposes of funding the loan program from November 2016 to November 2018. As at March 31, 2017, $2.0 billion of the facility is available and undrawn.

As at March 31, 2017, interest with fixed rates on the back to back loans ranged from 1.21% to 3.58% (2016 – 1.21% to 3.58%) and maturities ranged from May 15, 2019 to March 1, 2047. The FRN bears interest from three month CDOR plus 45 basis points and the maturity of the note is June 30, 2025. Interest is reset and paid quarterly until the maturity of the FRN.

**Province of Ontario Loan**
The Province provided Infrastructure Ontario with a 50 year subordinated loan of approximately $800 million in exchange for a promissory note that matures on March 31, 2053. During the year, $520 million was permanently repaid. The interest on the note is reset quarterly at the Province's three-month Treasury bill rate and payable quarterly. On March 31, 2017, interest on the note was reset at 0.67% (2016 – 0.62%).

# INFRASTRUCTURE ONTARIO
# NOTES TO FINANCIAL STATEMENTS
# March 31, 2017 and 2016

**Ontario Clean Water Agency Loan**

The Ontario Clean Water Agency (OCWA), an agency of the Province, provided a twenty-year subordinated loan of $120 million to Infrastructure Ontario secured by a promissory note due on March 1, 2023. The interest rate on the note is reset monthly at four basis points below the one month Canadian Dollar Offered Rate (CDOR) payable quarterly. On March 31, 2017, interest on the note was reset at 0.91% (2016 – 0.87%).

Together, the Province and OCWA loans provide Infrastructure Ontario with long term subordinate funding which provides: (i) credit protection to holders of senior debt such as Infrastructure Renewal Bonds; and (ii) a liquidity backstop for Infrastructure Ontario's financing needs.

## 10. TANGIBLE CAPITAL ASSETS

**Year ended March 31, 2017**

| ($ thousands) | Computer Equipment | Software | Furniture, Fixtures and Office Equipment | Leasehold Improve-ments | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, April 1, 2016 | $ 17,286 | 4,153 | 1,984 | 9,828 | 33,251 |
| Additions | 379 | - | 135 | - | 514 |
| Balance, March 31, 2017 | 17,665 | 4,153 | 2,119 | 9,828 | 33,765 |
| **Accumulated amortization** | | | | | |
| Balance, April 1, 2016 | 15,880 | 4,153 | 1,949 | 8,227 | 30,209 |
| Additions | 880 | - | 40 | 702 | 1,622 |
| Balance, March 31, 2017 | 16,760 | 4,153 | 1,989 | 8,929 | 31,831 |
| **Net book value - March 31, 2017** | $ 905 | - | 130 | 899 | 1,934 |

Year ended March 31, 2016

| ($ thousands) | Computer Equipment | Software | Furnture, Fixtures and Office Equipment | Leasehold Improve-ments | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, April 1, 2015 | $ 16,328 | 4,153 | 1,984 | 9,828 | 32,293 |
| Additions | 958 | - | - | - | 958 |
| Balance, March 31, 2016 | 17,286 | 4,153 | 1,984 | 9,828 | 33,251 |
| **Accumulated amortization** | | | | | |
| Balance, April 1, 2015 | 14,758 | 4,153 | 1,871 | 7,490 | 28,272 |
| Additions | 1,122 | - | 78 | 737 | 1,937 |
| Balance, March 31, 2016 | 15,880 | 4,153 | 1,949 | 8,227 | 30,209 |
| **Net book value - March 31, 2016** | $ 1,406 | - | 35 | 1,601 | 3,042 |

# INFRASTRUCTURE ONTARIO
# NOTES TO FINANCIAL STATEMENTS
# March 31, 2017 and 2016

## 11. INTEREST INCOME (EXPENSE)

| ($ thousands) | | 2017 | | 2016 (Note 20) |
|---|---|---|---|---|
| Interest revenue | $ | **218,812** | $ | 206,786 |
| Interest expense | | **(196,769)** | | (190,623) |
| **Net interest margin** | $ | **22,043** | $ | 16,163 |

The breakdown of interest expense on debt is as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Capital funding** | | | | |
| Province of Ontario loan | $ | **(3,172)** | $ | (5,251) |
| Ontario Clean Water Agency loan | | **(1,041)** | | (1,011) |
| | | **(4,213)** | | (6,262) |
| **Program funding** | | | | |
| Infrastructure Renewal Bonds | | **(14,048)** | | (19,000) |
| Short-term revolving credit facility | | **(3,095)** | | (4,155) |
| Ontario Immigrant Investor Corporation Loans | | **(9,395)** | | (12,595) |
| OIPC/OILC Bonds | | **(86,776)** | | (89,159) |
| Long-term non-revolving credit facility | | **(38,610)** | | (16,956) |
| | | **(151,924)** | | (141,865) |
| Interest rate swap net payment | | **(39,562)** | | (41,138) |
| Debt issue cost amortization | | **(1,070)** | | (1,358) |
| **Total interest expense** | $ | **(196,769)** | $ | (190,623) |

The reconciliation of cash interest received and paid to net interest margin is as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Cash interest received | $ | **209,134** | $ | 199,203 |
| Cash interest paid | | **(202,651)** | | (187,638) |
| | | **6,483** | | 11,565 |
| Non-cash interest | | | | |
| Amortization of loan concession costs (Note 4) | | **6,580** | | 7,327 |
| Other non-cash interest | | **8,980** | | (2,729) |
| Net interest margin | $ | **22,043** | $ | 16,163 |

Other non-cash interest includes net interest accrued (revenue and expense), and the amortization of debt issue costs.

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

## 12. GENERAL AND ADMINISTRATION EXPENSES

| ($ thousands) | 2017 Budget | **2017** | 2016 |
|---|---|---|---|
| Information technology | $ 6,891 | **$ 7,839** | $ 6,662 |
| Premises | 5,116 | **4,825** | 5,455 |
| Professional and consulting services | 5,854 | **3,564** | 3,813 |
| Office and administration | 1,657 | **1,323** | 1,231 |
| Communications | 372 | **213** | 213 |
| Amortization | 1,433 | **1,622** | 1,937 |
| | $ 21,323 | **$ 19,386** | $ 19,311 |

## 13. RELATED PARTY TRANSACTIONS

The Agency is economically dependent on the Province as a significant portion of its revenue is 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 the Ministry of Infrastructure.

Infrastructure Ontario's prime sources of revenue from the Province are:

1. Project delivery fees and project transaction fees
   Fees based on a percentage of project costs or on a cost recovery basis charged for services, including project and contract management, 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 advisory costs
   Third party adviser services provided to various Ministries and Ontario Crown Agencies on a cost recovery basis.

Infrastructure Ontario has interest bearing loans from the Province, OCWA, OIIC and the OFA (Note 8 and 9).

## 14. FUTURE EMPLOYEE BENEFITS

The Agency provides a defined contribution pension plan for certain full-time employees. The Agency's contribution to this plan for the year ended March 31, 2017 was $3.0 million (2016 – $2.9 million).

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 $0.4 million for the year ended March 31, 2017 (2016 – $0.4 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.

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

## 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 Credit and Real Estate Committee of the Board of Directors reviews policies for managing each of these risks, which are summarized below.

**Credit risk**
Credit risk is the risk of loss arising from a counterparty's inability to fulfill its financial contractual obligations to Infrastructure Ontario. The Agency is exposed to credit risk on cash accounts, investments and receivables, but primarily on loans receivable. The Agency manages credit risk through the implementation of policies and review processes.

*Credit risk – loans receivable*
Oversight of the credit risk of the lending program is the primary concern of the Credit and Real Estate Committee of the Board of Directors.

The credit risk policy ensures 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 based on an established set of risk factors. 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 receivable, without taking into account any collateral held or other credit enhancements, as at March 31, 2017 was $5,661.6 million.

Infrastructure Ontario classifies and manages its loans by tiers. Tier 1 borrowers have a tax base and/or receive provincial transfers which provide a strong source of debt repayment. Tier 2 borrowers are in sectors that are either regulated or entitled to government based revenue contracts and therefore have a stable source of debt repayment. Tier 3 borrowers are organizations dependent on self generated revenues either by market-set prices or donations and fund raising. The profile of the loans receivable at March 31, 2017 is as follows:

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

| ($ thousands) | Outstanding | Loan Valuation Allowance | 2017 | 2016 |
|---|---|---|---|---|
| **Tier 1** | | | | |
| Municipalities | $ 3,710,988 | | | |
| City of Toronto (as guarantor) | 708,282 | | | |
| Universities | 129,226 | | | |
| Local service boards | 212 | | | |
| Social housing (with municipal guarantee) | 153,159 | | | |
| Affordable housing (with municipal guarantee) | 1,782 | | | |
| Community health & social service hubs (with municipal guarantee) | 3,401 | | | |
| | **4,707,050** | **(262)** | **4,706,788** | 4,264,931 |
| **Tier 2** | | | | |
| Local distribution corporations | 264,768 | | | |
| Long term care | 147,043 | | | |
| Affordable housing (insured by CMHC)(1) | 132,175 | | | |
| Affordable housing (not insured by CMHC)(1) | 148,273 | | | |
| Social housing | 9,446 | | | |
| Aboriginal health access centres | 3,176 | | | |
| Community health & social service hubs | 20,371 | | | |
| | **725,252** | **(3,483)** | **721,769** | 726,853 |
| **Tier 3** | | | | |
| Power generators | 117,445 | | | |
| District energy | 27,028 | | | |
| Municipal corporations (other) | 31,707 | | | |
| Beneficial entities (arts training, etc.) | 95,863 | | | |
| Sports and recreation | 12,329 | | | |
| | **284,372** | **(14,804)** | **269,568** | 276,475 |
| **Deferred costs on concessionary loans** | | | | |
| Deferred costs, beginning of year | (43,083) | | | |
| Amortization of concession costs | 6,580 | | | |
| Deferred costs, end of year | **(36,503)** | - | **(36,503)** | (43,083) |
| **Loans receivable** | **$ 5,680,171** | **(18,549)** | **5,661,622** | 5,225,176 |

(1) CMHC is defined as Canada Mortgage and Housing Corporation

*Collateral – loans receivable*

Infrastructure Ontario lends on the strength of the 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 from the loan portfolio through various mitigation control provisions. The Agency has an intercept mechanism with the Province which allows for funds owing to certain borrowers (including municipalities) that receive 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 mortgage/charge, general security agreement, assignment of rents and leases and assignment of accounts, agreements and collateral.

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

*Impairment – loans receivable*
The 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 general valuation allowance is underpinned by a model 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 specific valuation allowance is also established in instances of known borrower credit deterioration on the expected non-recoverable portion of the loan receivable.

*Credit risk – cash, receivable and investments*
The maximum exposure to credit risk on the cash, cash equivalents, receivables, derivative assets and investments, without taking into account any collateral held or other credit enhancements, as at March 31, 2017 was:

| ($ thousands) | | 2017 | | Past Due >90 days |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 486,028 | $ | - |
| Accounts receivable | | 35,620 | | 11,622 |
| Interest receivable | | 45,906 | | - |
| Investment income receivable | | 1,779 | | - |
| Projects receivable | | 45,086 | | - |
| Derivative assets | | 283,271 | | - |
| Investments | | 177,505 | | - |
| | $ | 1,075,195 | $ | 11,622 |

There is no valuation allowance provided against cash and cash equivalents, receivables, derivative assets and investments as at March 31, 2017.

**Market risk**
Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. This could occur on investments purchased as an economic hedge against borrowed funds that were surplus to immediate lending requirements. These investments were sold as required in order to fund loans. As a result of entering into back to back loan arrangements with the OFA, purchasing investments as an economic hedge is no longer needed. In addition, the entity only invests in bonds authorized under the approved policies and therefore are highly rated by recognized credit rating agencies and can be readily liquidated.

**Interest rate risk**
Interest rate risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This could occur when the re-pricing of assets is not aligned with the re-pricing of liabilities. As a result of entering into back to back loan arrangements with the OFA, this re-pricing mismatch has been eliminated on all new loans after April 2015.

Management also controls interest rate risk through the use of interest rate swap derivatives as well as through the alignment of asset and liability risk structures and maturities.

*Sensitivity to variations in interest rates*
The sensitivity of a +/-1% change in the interest rate would have a $1.1 million / ($1.3 million) impact on the annual surplus (deficit); a +/-1 basis point change in the interest rate would have a $0.9 million / ($0.9 million) impact on the accumulated re-measurement gains (losses).

**Liquidity risk**
Liquidity risk is the risk Infrastructure Ontario will not be able to meet its financial obligations as they come due. The senior debt is protected by the capital funding, funded by long-term subordinated loans provided by the Province and the OCWA. The capital funding is invested in short and long term liquid instruments that can be converted into cash in the event of any foreseeable liquidity crisis.

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

Infrastructure Ontario's borrowing by-laws are approved by the Board of Directors and the Minister of Infrastructure as well as the Minister of Finance. Borrowing is reviewed with the Credit and Real Estate 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 the OFA.

The following illustrates the maturities of contracted obligations as at March 31, 2017:

| ($ thousands) | Within 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Accounts payable | $ 3,891 | $ - | $ - | $ 3,891 |
| Accrued liabilities | 27,024 | - | - | 27,024 |
| Liabilities held in trust | 75,244 | - | - | 75,244 |
| Interest payable | 67,302 | - | - | 67,302 |
| Derivative liabilities | - | - | 371,019 | 371,019 |
| Debt – principal and interest | 948,426 | 1,763,853 | 5,326,993 | 8,039,272 |
| **Total financial liabilities** | **$ 1,121,887** | **$ 1,763,853** | **$ 5,698,012** | **$ 8,583,752** |

## 16. CONTINGENCIES

The Agency is involved in various disputes and litigation. In the opinion of management, the resolution of disputes against the Agency, will not result in a material effect on the financial position of the Agency.

## 17. COMMITMENTS

Minimum base rent annual payments under operating leases for the Agency's office space for the next five years are:

| ($ thousands)<br>**Fiscal year** | **Amount** |
|---|---|
| 2017-2018 | $ 4,302 |
| 2018-2019 | 4,861 |
| 2019-2020 | 4,942 |
| 2020-2021 | 5,025 |
| 2021-2022 | 5,260 |
| | **$ 24,390** |

Infrastructure Ontario has $551.4 million of unadvanced loan commitments as at March 31, 2017.

## 18. FUNDS HELD IN TRUST

Infrastructure Ontario is required by the CMHC to collect property taxes and reserve funds as a condition of providing certain 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. As at March 31, 2017, the funds under administration were $55.4 million (2016 – $220.3 million).

**INFRASTRUCTURE ONTARIO**
**NOTES TO FINANCIAL STATEMENTS**
**March 31, 2017 and 2016**

Infrastructure Ontario maintains a project trust general ledger account to record funds received from various ministries and payable to project construction consortiums related to project substantial completion payments, interim payments, as well as payments received for variations, furniture, fixtures and equipment. 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 ministries, but flow through Infrastructure Ontario. As at March 31, 2017, Infrastructure Ontario held $19.8 million (2016 – $27.9 million) in its project trust general ledger account.

Infrastructure Ontario maintains several operating bank accounts and a short-term investment account which it holds in trust and administers on behalf of the Ministry. These 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 as at March 31, 2017 were $234.2 million (2016 – $227.8 million), and are not recorded in these financial statements.

## 19. SEGMENTED INFORMATION

Infrastructure Ontario's reporting structure reflects how the business is managed. Infrastructure Ontario manages its operations to enable delivery and accountability on priorities such as those set by the Minister as well as corporate objectives determined by the Board. Infrastructure Ontario also assesses and anticipates future assignments and works to align its resources accordingly. As a result, Infrastructure Ontario is able to effectively allocate its resources and responsibilities by operating divisions in order to ensure efficiency and sustainability of operations over the period of the business plan. The comparative figures for the segmented information has been updated to reflect four business lines whereby land development has been consolidated with commercial projects. The table below is a summary of financial information by segment:

| | For the year ended March 31, 2017 | | | | |
|---|---|---|---|---|---|
| ($ thousands) | Major Projects | Real Estate | Lending | Commercial Projects | Total |
| **Revenues** | | | | | |
| Interest revenue | $ - | - | 218,812 | - | 218,812 |
| Project delivery fees | 31,228 | - | - | 2,325 | 33,553 |
| Project transaction fees | 7,520 | 682 | - | 18,538 | 26,740 |
| Management fees | - | 54,633 | - | - | 54,633 |
| Recoverable advisory costs | 17,946 | - | - | - | 17,946 |
| Other income | - | 3,040 | 8,074 | - | 11,114 |
| | 56,694 | 58,355 | 226,886 | 20,863 | 362,798 |
| **Expenses** | | | | | |
| Salaries and benefits | 22,566 | 37,476 | 4,906 | 3,216 | 68,164 |
| General and administration | 7,984 | 8,201 | 2,495 | 706 | 19,386 |
| Program expenses | | | | | |
| Project transaction costs | 7,888 | 682 | - | 18,628 | 27,198 |
| Recoverable advisory costs | 17,946 | - | - | - | 17,946 |
| Interest expense | - | - | 196,769 | - | 196,769 |
| Sub-contracting fees | - | 9,678 | - | - | 9,678 |
| Loan valuation allowance | - | - | 11,231 | - | 11,231 |
| Total program expenses | 25,834 | 10,360 | 208,000 | 18,628 | 262,822 |
| | 56,384 | 56,037 | 215,401 | 22,550 | 350,372 |
| **Surplus/(deficit)** | $ 310 | 2,318 | 11,485 | (1,687) | 12,426 |

# INFRASTRUCTURE ONTARIO
# NOTES TO FINANCIAL STATEMENTS
# March 31, 2017 and 2016

For the year ended March 31, 2017 - Budget

| ($ thousands) | Major Projects | Real Estate | Lending | Commercial Projects | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Interest revenue | $ - | - | 217,801 | - | 217,801 |
| Project delivery fees | 32,067 | - | - | 3,713 | 35,780 |
| Project transaction fees | 15,249 | - | - | - | 15,249 |
| Management fees | - | 55,043 | - | - | 55,043 |
| Recoverable advisory costs | - | - | - | - | - |
| Other income | - | 2,000 | - | - | 2,000 |
| | 47,316 | 57,043 | 217,801 | 3,713 | 325,873 |
| **Expenses** | | | | | |
| Salaries and benefits | 24,031 | 37,209 | 4,869 | 3,409 | 69,518 |
| General and administration | 8,233 | 9,298 | 2,926 | 866 | 21,323 |
| Program expenses | | | | | |
| Project transaction costs | 15,249 | - | - | - | 15,249 |
| Recoverable advisory costs | - | - | - | - | - |
| Interest expense | - | - | 196,780 | - | 196,780 |
| Sub-contracting fees | - | 9,855 | - | - | 9,855 |
| Loan valuation allowance | - | - | 10,000 | - | 10,000 |
| Total program expenses | 15,249 | 9,855 | 206,780 | - | 231,884 |
| | 47,513 | 56,362 | 214,575 | 4,275 | 322,725 |
| **Surplus/(deficit)** | $ (197) | 681 | 3,226 | (562) | 3,148 |

For the year ended March 31, 2016

| ($ thousands) | Major Projects | Real Estate | Lending | Commercial Projects | Total |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Interest revenue | $ - | - | 206,786 | - | 206,786 |
| Project delivery fees | 23,475 | - | - | 3,942 | 27,417 |
| Project transaction fees | 11,177 | - | - | 21,331 | 32,508 |
| Management fees | - | 52,469 | - | - | 52,469 |
| Recoverable advisory costs | 20,803 | - | - | - | 20,803 |
| Other income | - | 4,574 | 1,460 | - | 6,034 |
| | 55,455 | 57,043 | 208,246 | 25,273 | 346,017 |
| **Expenses** | | | | | |
| Salaries and benefits | 22,737 | 32,899 | 4,375 | 3,747 | 63,758 |
| General and administration | 7,231 | 8,030 | 2,706 | 1,344 | 19,311 |
| Program expenses | | | | | |
| Project transaction costs | 5,370 | - | - | 21,331 | 26,701 |
| Recoverable advisory costs | 20,803 | - | - | - | 20,803 |
| Interest expense | - | - | 190,623 | - | 190,623 |
| Sub-contracting fees | - | 9,781 | - | - | 9,781 |
| Loan valuation allowance | - | - | 15,492 | - | 15,492 |
| Project funding expenses | 48 | - | | | 48 |
| Total program expenses | 26,221 | 9,781 | 206,115 | 21,331 | 263,448 |
| | 56,189 | 50,710 | 213,196 | 26,422 | 346,517 |
| **Surplus/(deficit)** | $ (734) | 6,333 | (4,950) | (1,149) | (500) |

## 20. COMPARATIVE FIGURES

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

The comparative Statement of Operations and Accumulated Surplus, note 11, and note 19 have been reclassified to present the net interest revenue and interest expense earned on interest rate swap transactions.

In addition, the financing activities in the Statement of Cash Flows have been reclassified to separate the short term revolving credit facility.

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Ontario
Ontario Mortgage and Housing Corporation
Société ontarienne d'hypothèques et de logement

**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 12, 2017.

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,

Keith Extance
Chief Executive Officer

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

*Independent Auditor's Report*

To the Ontario Mortgage and Housing Corporation
and to the Minister of 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, 2017, and the statements of operations, changes in net debt 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 the Ontario Mortgage and Housing Corporation as at March 31, 2017, and the results of its operations, change in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 12, 2017

Susan Klein, CPA, CA, LPA
Assistant Auditor General

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# ONTARIO MORTGAGE AND HOUSING CORPORATION

## Statement of Financial Position
## As at March 31, 2017

| | March, 31, 2017 ($ 000) | March 31, 2016 ($ 000) |
|---|---|---|
| **Liabilities** | | |
| Accounts payable and accrued liabilities (Note 7) | 8,373 | 11,862 |
| Long-term debt (Note 8) | 275,654 | 337,977 |
| Long-term Environmental Remediation (Note 4) | 44,433 | 53,983 |
| | 328,460 | 403,822 |
| **Financial Assets** | | |
| Cash (Note 5) | 1,560 | 1,485 |
| Accrued interest from Universities and Colleges | 60 | 70 |
| Due from Canada Mortgage and Housing Corporation | | 6 |
| Due from Province of Ontario | 8,248 | 11,680 |
| Investments in student housing properties (Note 6) | 3,301 | 4,107 |
| | 13,169 | 17,348 |
| **Net Debt and Accumulated Deficit** | (315,291) | (386,474) |

**Contingent Liabilities (**Note 9)

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

On behalf of the Board:

Janet Hope, Chair

Keith Extance, Chief Executive Officer

# ONTARIO MORTGAGE AND HOUSING CORPORATION
## Statement of Operations
## For the year ended March 31, 2017

| | Budget ($ 000) | 2017 ($ 000) | 2016 ($ 000) |
|---|---|---|---|
| **Revenue** | | | |
| Subsidies from Province of Ontario: | | | |
| Debt service obligations | 81,632 | 81,632 | 87,320 |
| Environmental Remediation (Note 4) | 12,026 | 9,871 | 9,991 |
| Affordable Home Ownership Program (AHP) Mortgages | - | 85 | 975 |
| Interest received from Student Housing | 245 | 245 | 334 |
| Miscellaneous | 10 | 32 | 49 |
| Total revenues | 93,913 | 91,865 | 98,669 |
| **Expenses** | | | |
| Debentures Interest: | | | |
| Devolved properties | 20,115 | 20,115 | 24,587 |
| Student housing | 245 | 245 | 334 |
| Environmental Remediation (Note 4) | 687 | 321 | 1,916 |
| Loss on Restructuring (Note 3) | - | - | 50 |
| Miscellaneous | 10 | 1 | 1 |
| Total expenses | 21,057 | 20,682 | 26,888 |
| **Excess of Revenues over Expenses** (Note 10) | 72,856 | 71,183 | 71,781 |

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

# ONTARIO MORTGAGE AND HOUSING CORPORATION

## Statement of Changes in Net Debt and Accumulated Deficit
## For the year ended March 31, 2017

| | Budget ($ 000) | 2017 ($ 000) | 2016 ($ 000) |
|---|---|---|---|
| **Net Debt and Accumulated Deficit, beginning of year** | (386,474) | (386,474) | (458,255) |
| **Excess of Revenues over Expenses** (Note 10) | 72,856 | 71,183 | 71,781 |
| **Net Debt and Accumulated Deficit, end of year** | (313,618) | (315,291) | (386,474) |

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, 2017**

| | 2017 ($ 000) | 2016 ($ 000) |
|---|---|---|
| **Operating transactions** | | |
| Excess of Revenue over Expenses | 71,183 | 71,781 |
| Changes in non-cash working capital: | | |
| Increase (Decrease) in Accounts Payable and Accrued Liabilities | (3,489) | 3,852 |
| Decrease in Long-Term Environmental Remediation | (9,550) | (8,033) |
| Decrease in Accrued Interest from Universities and Colleges | 10 | 49 |
| Decrease (Increase) in Due from Canada Mortgage and Housing Corporation | 6 | (6) |
| Decrease (Increase) in Due from the Province of Ontario | 3,432 | (4,765) |
| Cash provided by operating transactions | 61,592 | 62,878 |
| **Financing Transactions** | | |
| Long-Term Debt Repayment | | |
| – Province of Ontario | (6,602) | (7,029) |
| – Canada Mortgage and Housing Corporation | (55,721) | (59,016) |
| Cash applied to financing transactions | (62,323) | (66,045) |
| **Investing Transactions** | | |
| Collection of Ontario Student Housing Long-Term Debt | 806 | 3,312 |
| **Increase in Cash** | 75 | 145 |
| **Cash Balance at Beginning of Year** | 1,485 | 1,340 |
| **Cash Balance at End of Year** | 1,560 | 1,485 |

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, 2017**

## 1. Nature of Operations

The Ontario Mortgage and Housing Corporation (the Corporation), formerly the Ontario Housing Corporation, was established without share capital in 2006 under the *Ontario Mortgage and Housing Corporation Act* (OMHCA), as a provincial government agency. The Corporation's responsibilities include maintaining debt retirement obligations, debt service administration and satisfying obligations related to former public housing. The Corporation also carries out any other duties assigned by the Minister of Housing in respect of matters under the OMHCA.

In addition, the Corporation has the authority to manage, administer and deliver the Affordable Home Ownership Program, set out in the Canada-Ontario Affordable Housing Program Agreement, and to manage, administer and deliver other prescribed programs.

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 Service 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 Housing (the Ministry) provides the Corporation with subsidies to cover its debt service payments and other expenses.

In accordance with the amendments to the OMHCA that came into force on April 1, 2015, the Ontario Mortgage Corporation (OMC) was dissolved and its assets, liabilities, obligations and programs were transferred to the Corporation. The Affordable Home Ownership Program (AHP) Revolving Loan Fund was transferred to OMHC at that time. The AHP mortgages were transferred and vested in OMHC by Minister's Order in 2016. The Corporation is responsible for managing the marketable and forgivable loans and mortgages that were owned by OMC prior to its dissolution and that were transferred to the Corporation on April 1, 2015.

The Corporation is exempt from federal and provincial income taxes under the *Income Tax Act* and the *Taxation Act*.

## 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 of Ontario (the Province) are accounted for as revenue when received, which is when the related expenses are incurred and when the environmental remediation liability is settled.

# ONTARIO MORTGAGE AND HOUSING CORPORATION
**Notes to the Financial Statements**
**For the year ended March 31, 2017**

## 2. Significant Accounting Policies (Continued)

### (C) EXPENSES

Expenses are reported on an accrual basis as incurred. These expenses include debt servicing cost such as interest expenses.

### (D) FINANCIAL INSTRUMENTS

The Corporation's financial assets and liabilities are accounted for as follows:

- Cash is subject to insignificant risk of change in value so the carrying value approximates fair value.
- Accrued Interest from Universities and Colleges, due from the Province, Investments in Student Housing Properties (note 6) and Interest Receivable are measured at amortized cost.
- Long-Term Debt, which consists of loans from the Province and Canada Mortgage and Housing Corporation debentures (note 8), is measured at amortized cost.
- Accounts Payable and Accrued Liabilities (note 7) are measured at cost.

### (E) ACCUMULATED DEFICIT

The Accumulated Deficit that resulted from the transfer of properties to LHCs for no consideration is reduced each year by an amount equal to the portion of the subsidy from the Province required to cover principal payments on the Corporation's long-term debt. The Accumulated Deficit is also reduced by the revenues provided by the Province to settle the Corporation's Long-Term Environmental Remediation Liability.

### (F) USE OF ESTIMATES

Preparation of financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts. Actual results could differ from those estimates. Significant estimates include Long-Term Environmental Remediation Liability and Contingent Liabilities for Contaminated Sites.

# ONTARIO MORTGAGE AND HOUSING CORPORATION

**Notes to the Financial Statements**
**For the year ended March 31, 2017**

## 3. Restructuring Transactions

In the 2014 Ontario Budget, the Province of Ontario identified a number of agencies with "overlapping functions". The OMC and the Corporation were identified within this group and as a result the OMHCA was amended to address the overlapping functions and dissolve the OMC.

On April 1, 2015, the Corporation completed a restructuring transaction whereby the OMC was dissolved and all its assets, liabilities, rights, obligations and programs were transferred to the Corporation. No monetary compensation was involved in the transaction and no costs were incurred as a result of the restructuring.

Effective April 1, 2015, the Corporation also early adopted the new Public Sector Accounting Standard 3430 Restructuring Transactions. The Corporation's assets and liabilities in the following financial statement classifications were increased at the restructuring date to recognize the transfer from OMC:

OMC Carrying Value (as of April 1, 2015)

| | ($ 000) |
|---|---|
| Due from Canada Mortgage and Housing Corporation | 11 |
| **Total Assets Recognized** | **11** |
| | |
| Accounts Payable and Accrued Liabilities | 11 |
| Due to Province of Ontario | 50 |
| **Total Liabilities Recognized** | **61** |
| | |
| Loss recognized in the statement of operations due to restructuring | (50) |

## 4. Long-Term Environmental Remediation

The balance in the Liability for contaminated sites as at March 31, 2017 is $44.4 million. The liability is discounted using the provincial borrowing rate for debentures with similar maturity (average 1.22%). The undiscounted value of the accrued liability is $46.6 million.

The liability is management's best estimate based on environmental investigations performed by independent experts and reflects the costs required to remediate the sites. Remediation is expected to occur within the next five years.

There are two commitments as at March 31, 2017 - the multi-year Regent Park redevelopment project and the Alexandra Park redevelopment.

# ONTARIO MORTGAGE AND HOUSING CORPORATION
**Notes to the Financial Statements**
**For the year ended March 31, 2017**

## 4. Long-Term Environmental Remediation (Continued)

Regent Park, formerly owned by the Corporation, is being re-developed by the Toronto Community Housing Corporation (TCHC). The site has soil contamination as a result of historical industrial uses. Based on the redevelopment plan prepared by TCHC, it is expected that phases 2 and 3 will be completed by 2018-19 after which phases 4 and 5 will start. Current cost estimates, based on site testing reports, to complete phases 2 and 3 are $13.9 million and for phases 4 and 5 are $29 million.

In June 2013, TCHC advised that an Environmental Site Assessment (ESA) identified soil and groundwater contamination on the Alexandra Park site. In March 2014, TCHC requested that the Corporation provide financial assistance for soil remediation work. Cost estimates to remediate the contamination total $3.7 million.

The Long-Term Environmental Remediation liability balance is comprised of the following:

| | ($000) |
|---|---|
| April 1, 2016 Opening Balance | 53,983 |
| Increase: Revised Estimate | 321 |
| Decrease: Remediation Undertaken | (9,871) |
| Balance as at March 31, 2017 | 44,433 |

Cumulative costs for site remediation to March 31, 2017 are $32.6 million (2016 – $22.5 million).

## 5. Cash

The cash balance is made up of the following:

| | March 31, 2017 ($ 000) | March 31, 2016 ($ 000) |
|---|---|---|
| Cash | 500 | 510 |
| Internally Restricted Cash | 1,060 | 975 |
| Total Cash Balance | 1,560 | 1,485 |

The internally restricted cash includes monies received from the Affordable Housing Program (AHP) which are to be used under the OMHCA for housing purposes only.

# ONTARIO MORTGAGE AND HOUSING CORPORATION

**Notes to the Financial Statements**
**For the year ended March 31, 2017**

## 6. 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, any related encumbrances in favour of the Corporation on the properties are discharged.

| | March 31, 2017 ($ 000) | March 31, 2016 ($ 000) |
|---|---|---|
| Original Cost | 35,115 | 35,115 |
| Less: Accumulated Capital Repayments | 31,814 | 31,008 |
| | 3,301 | 4,107 |

## 7. 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 and amounts owing for environmental remediation costs incurred prior to year end.

## 8. Long Term Debt

Long term debt is comprised of the following:

| | March 31, 2017 ($ 000) | March 31, 2016 ($ 000) |
|---|---|---|
| Canada Mortgage and Housing Corporation | 246,941 | 302,662 |
| Loans Repayable to the Province | 28,713 | 35,315 |
| | 275,654 | 337,977 |

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 are Loans Repayable to the Province, with interest and principal payments being made to the Ontario Ministry of Finance.

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 5.93% and 6.81% respectively (2016 – 6.08% and 6.88% respectively). Interest expense for the year ended March 31, 2017 totaled $20.4 million (2016 – $24.9 million); $2.4 million (2016 – $2.9 million) of which was paid to the Province.

The interest expense is included in Debentures Interest in the Statement of Operations and is offset by the subsidy from the Ministry.

# ONTARIO MORTGAGE AND HOUSING CORPORATION
**Notes to the Financial Statements**
**For the year ended March 31, 2017**

## 8. Long Term Debt (continued)

Scheduled payments over the next five years and thereafter are as follows:

| | Gross Payments ($ 000) | Principal Payments ($ 000) |
|---|---|---|
| 2018 | 70,320 | 55,643 |
| 2019 | 63,858 | 53,192 |
| 2020 | 41,483 | 34,604 |
| 2021 | 31,410 | 26,799 |
| 2022 | 22,327 | 19,381 |
| Thereafter | 31,314 | 28,085 |

## 9. 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, 2017, there were $4.2 billion (2016 – $5.0 billion) of mortgage loans outstanding on provincially funded projects. To date, there have been no claims for defaults on the insured mortgage loans.

### (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*. The Ministry reimburses the Corporation for costs incurred.

The Ministry completed its review in 2014-15 of the more than 1,500 former OMHC sites in order to better refine potential liabilities for environmental contamination. The potential liability is for soil and groundwater contaminants as defined under the *Environmental Protection Act*. Estimates were developed using a risk-based approach that analyzed current and historical land uses, local redevelopment potential, construction date and building type to assess potential environmental risk. A total of 50 sites were identified as having a high degree of risk for potential contamination. These 50 sites represent a potential contingent liability of approximately $295 million. The need for remediation would be confirmed if and when a Service Manager has identified a site for redevelopment.

# ONTARIO MORTGAGE AND HOUSING CORPORATION

**Notes to the Financial Statements**
**For the year ended March 31, 2017**

## 10. Excess of Revenues over Expenses

The Corporation derives its revenues from two subsidies from the Province: the debt service obligation subsidy and the environmental remediation subsidy. The debt service obligation subsidy covers the interest on long-term debt included in Corporation's expenses, and the remaining portion represents the excess of revenues over expenses that is applied to the principal payments on the long-term debt.

Similarly, the environmental remediation subsidy covers the environmental remediation costs included in the Corporation's expenses, and the remaining portion represents the excess of revenues over expenses that is applied to offset the site remediation costs that are accounted for in the Long-Term Environmental Remediation obligation as described in note 4.

## 11. 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, 2017, the outstanding balance due from colleges with respect to loans for Student Housing Properties (note 6) was $518,000 (2016 - $585,000). Total interest and principal payments received from colleges was $108,000 (2016 - $108,000).

### (B) ADMINISTRATIVE EXPENSES

The Ministry provides administrative, financial, and program services to the Corporation at no charge. The cost for these services amounted to $150,000 (2016 - $150,000). All Board members are senior civil servants and support services are provided by staff of the Ministry in the normal course of their duties.

## 12. Risk Management

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.

## 13. Comparative Figures

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

# Ontario Northland Transportation Commission

## Management's Responsibility

The Ontario Northland Transportation Commission's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards. The preparation of consolidated 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. All financial information in the annual report is consistent with the consolidated financial statements.

The Commission maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that the Commission’s assets and liabilities are adequately accounted for and assets safeguarded.

The Commission is responsible for ensuring that management fulfils its responsibilities for internal control and financial reporting. The Commission meets with management and external auditors to satisfy itself that each group has met its responsibilities. These consolidated financial statements have been reviewed and approved by the Commission.

These consolidated financial statements have been audited by the Auditor General of Ontario, whose responsibility is to express an opinion on whether they are fairly presented in accordance with Canadian public sector accounting standards. The Independent Auditor’s Report which follows, outlines the scope of the Auditor’s examination and opinion.

T. Laughren
Chair

C. Moore
President and CEO

North Bay, Ontario
June 26, 2017

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

***Independent Auditor's Report***

To the Ontario Northland Transportation Commission
and to the Minister of Northern Development and Mines

I have audited the accompanying consolidated financial statements of the Ontario Northland Transportation Commission, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of changes in net assets, operations, and cash flows for the year then ended, 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.

**Auditor's Responsibility**

My responsibility is to express an opinion on these consolidated 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 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 auditor's 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 auditor considers 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.

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 consolidated financial statements present fairly, in all material respects, the financial position of Ontario Northland Transportation Commission as at March 31, 2017 and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 26, 2017

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

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# Ontario Northland Transportation Commission
## Consolidated Statement of Financial Position
**(dollars in thousands)**

| March 31 | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash and cash equivalents | $ 1,008 | $ - |
| Accounts receivable (Net of allowance - $73; 2016 - $84) | 21,479 | 46,279 |
| Inventory | 14,210 | 12,071 |
| Prepaid expenses | 459 | 367 |
| | 37,156 | 58,717 |
| **Restricted cash** (Note 4, 7 and 11) | 2,271 | 6,874 |
| **Capital assets** (Note 5) | 376,009 | 340,673 |
| **Accrued pension benefit asset** (Note 6a) | 39,197 | 39,303 |
| | $ 454,633 | $ 445,567 |
| **Liabilities and Net Assets** | | |
| **Current** | | |
| Bank overdraft | $ - | $ 117 |
| Accounts payable and accrued liabilities | 19,255 | 35,544 |
| Current portion of long-term debt (Note 9) | 406 | 386 |
| Deferred revenue | 65 | 66 |
| | 19,726 | 36,113 |
| **Deferred government contributions** (Note 4 and 7) | 2,185 | 2,169 |
| **Deferred government capital contributions** (Note 8) | 268,557 | 227,988 |
| **Long-term debt** (Note 9) | 2,159 | 2,565 |
| **Accrued non-pension benefit obligation** (Note 6b) | 86,183 | 86,652 |
| **Liability for contaminated sites** (Note 10) | 3,500 | 3,500 |
| | 382,310 | 358,987 |
| **Net assets** | | |
| Unrestricted | 72,237 | 81,875 |
| Internally restricted – Reserve for Self Insurance (Note 4 and 11) | 86 | 4,705 |
| | 72,323 | 86,580 |
| | $ 454,633 | $ 445,567 |

**Contingencies** (Note 15) / **Commitments** (Note 16)

Approved on behalf of the Commission:

________________________ Chair

________________________ President and CEO

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

# Ontario Northland Transportation Commission
## Consolidated Statement of Changes in Net Assets
(dollars in thousands)

| For the year ended March 31 | 2017 | 2016 |
|---|---|---|
| **Unrestricted Net Assets** | | |
| **Balance,** beginning of year | $ 81,875 | $ 80,494 |
| **Transfer from (to) Reserve for Self Insurance** (Note 11) | 4,619 | (49) |
| **(Deficiency) excess of revenues over expenses for the year** | (14,257) | 1,430 |
| **Balance**, end of year | $ 72,237 | $ 81,875 |
| **Internally Restricted - Reserve for Self Insurance** (Note 11) | | |
| **Balance,** beginning of year | $ 4,705 | $ 4,656 |
| **Transfers (to) from Unrestricted Net Assets** | (4,619) | 49 |
| **Balance,** end of year | $ 86 | $ 4,705 |
| **Total Net Assets** | $ 72,323 | $ 86,580 |

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

# Ontario Northland Transportation Commission
## Consolidated Statement of Operations
### (dollars in thousands)

| For the year ended March 31 | 2017 | 2016 |
|---|---|---|
| **Revenues** | | |
| Sales and other (Note 13) | $ 61,435 | $ 62,514 |
| **Expenses** (Note 13) | | |
| Labour and Benefits (Note 6) | 60,659 | 63,592 |
| Materials and Parts | 15,516 | 13,699 |
| Services | 7,998 | 9,425 |
| Supplies and Equipment | 4,475 | 4,196 |
| Other (Note 18) | 14,254 | 8,827 |
| Interest on long-term debt | 140 | 163 |
| Loss (gain) on sale of capital assets | 1,466 | (315) |
| Investment income | (35) | (49) |
| Amortization of capital assets | 14,109 | 15,507 |
| | 118,582 | 115,045 |
| **Deficiency of revenues over expenses before government funding** | (57,147) | (52,531) |
| Government Operating Contributions (Note 12) | 35,224 | 45,256 |
| Amortization of deferred capital contributions (Note 8) | 7,666 | 8,705 |
| **(Deficiency) excess of revenues over expenses for the year** | $ (14,257) | $ 1,430 |

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

## Ontario Northland Transportation Commission
## Consolidated Statement of Cash Flows
**(dollars in thousands)**

| Year ended March 31 | 2017 | 2016 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| (Deficiency) excess of revenues over expenses for the year | $ (14,257) | $ 1,430 |
| Items not affecting cash | | |
| Amortization of capital assets | 14,109 | 15,507 |
| Amortization of deferred capital contributions | (7,666) | (8,705) |
| Loss (gain) on disposal of capital assets | 1,466 | (315) |
| Employee future benefit expense | 14,807 | 17,220 |
| | 8,459 | 25,137 |
| Changes in non-cash working capital balances | | |
| Accounts receivable | 24,800 | (3,123) |
| Inventory | (2,139) | 1,342 |
| Prepaid expenses | (92) | 24 |
| Accounts payable and accrued liabilities | (16,288) | (5,294) |
| Deferred government contributions and deferred revenue | 15 | (344) |
| | 14,755 | 17,742 |
| **Capital activities** | | |
| Purchase of capital assets | (52,019) | (41,509) |
| Proceeds from sale of capital assets | 589 | 778 |
| | (51,530) | (40,731) |
| **Financing activities** | | |
| Principal repayment of long-term debt | (386) | (366) |
| Deferred capital contributions | 48,753 | 36,997 |
| Pension contributions paid | (11,063) | (13,934) |
| Non-pension benefits paid | (4,107) | (3,824) |
| | 33,197 | 18,873 |
| **Decrease in cash and cash equivalents during the year** | (3,478) | (4,116) |
| **Cash and cash equivalents**, beginning of year | 6,757 | 10,873 |
| **Cash and cash equivalents,** end of year | $ 3,279 | $ 6,757 |
| **Represented by** | | |
| Cash and cash equivalents (bank overdraft) | $ 1,008 | $ (117) |
| Restricted cash and cash equivalents (Note 4) | 2,271 | 6,874 |
| | $ 3,279 | $ 6,757 |

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

# Ontario Northland Transportation Commission
# Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

## 1. Nature of Organization

The Ontario Northland Transportation Commission (the “Commission”), an Operational Enterprise of the Province of Ontario (the “Province”), delivers a variety of services, including rail freight, passenger rail and motor coach, primarily in the north-eastern portion of Northern Ontario.

The Commission generates revenues from the provision of transportation services. The Commission also receives an annual operational subsidy as well as capital subsidy from the Province of Ontario. The ability of the Commission to continue to offer its services and fulfill its mandate is dependent on the ongoing subsidies it receives from the Province.

As a not-for-profit operational enterprise of the Province, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

## 2. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with the standards applicable for government not-for-profit organizations found in the Public Sector Accounting Handbook. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc. and Nipissing Central Railway Company.

### *Revenue Recognition*

Revenue from all sources is recognized when all of the following conditions are met:

a) services are provided or products delivered to customers
b) there is clear evidence that an arrangement exists, and
c) collection is reasonably assured.

Rail services revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier.

Contract revenues are generally recorded on a percentage of completion basis as work reaches predetermined project milestones.

# Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

**2. Significant Accounting Policies** (continued)

The Commission accounts for provincial contributions under the deferral method of accounting as follows:

- Unrestricted contributions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.
- Externally restricted contributions related to operating expenditures are recognized as revenue when the related expenditures are incurred.
- The Province reimburses the Commission for the cost of certain capital assets purchased for use in operations. The Commission records the contributions as deferred capital contributions. Deferred capital contributions are amortized to revenue on a straight-line basis at rates corresponding to those of the related capital assets.

***Capital Assets***

Capital assets are stated at acquisition cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for principal categories of capital assets are as follows:

| | |
|---|---|
| Land | No amortization |
| Roadway | 20 to 50 years |
| Buildings | 50 years |
| Equipment | 3 to 33 years |
| Coaches | 10 to 12 years |

No amortization is provided on assets under construction until they are placed in use.

***Employee Future Benefits***

*Pension Plans* - The Commission maintains a contributory defined benefit pension plan for its employees. It provides for pensions based on years of service and average pensionable earnings and is generally applicable from the first day of the month following employment. A Supplementary Employee Retirement Plan (SERP) also exists for employees who earn a lifetime pension amount in excess of the Canadian Income Tax Act's maximum. The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. The plans are not indexed; however, there have been a variety of ad hoc increases made to pensioners.

*Non-Pension Benefit Plans* - The Commission offers non-pension post retirement benefits such as group life, health care and long-term disability to employees through defined benefit plans. The costs associated with these future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. In addition, as a Schedule 2 employer under the Workplace Safety and Insurance Board (WSIB), the Commission recognizes workers compensation benefits on an accrual basis using actuarial calculations provided by the WSIB for benefits in force, benefits not yet awarded and administrative loading costs.

# Ontario Northland Transportation Commission
# Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

## 2. Significant Accounting Policies (continued)

### *Employee Future Benefits (continued)*

Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and net actuarial gains or losses. These expenses are recorded in the year in which employees render services to the Commission. Past services pension costs were charged to net assets on transition to P5-3250. Actuarial gains and losses are amortized on a straight-line basis over the EARSL of the employees covered by the plans (approximately 13 years). Past service costs are recognized in the period of plan amendment.

Pension fund assets are valued using current market values.

### *Inventory*

Materials and supplies, with the exception of used rail and wheel-sets, are valued at the lower of cost and net realizable value by using the weighted-average costing methodology. Used rail is shown at unamortized book value determined at the time of retirement. Wheel-sets are valued at standard cost. The Commission uses the same cost formulas for all inventories having a similar nature and use to the Commission. When net realizable value is less than carrying cost, inventory is written down accordingly. When circumstances which previously caused inventories to be written down no longer exist, that previous impairment is reversed.

### *Impairment of Capital Assets*

Capital assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the capital asset may not contribute to the Commission's ability to deliver services. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, both the asset and any related deferred capital contributions are written down by the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Commission uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

### *Foreign Currency Translation*

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the Consolidated Statement of Financial Position date. Revenues and expenses are translated at the rates of exchange in effect at the transaction date. Realized and unrealized gains and losses are included in the determination of excess of revenue over expenses.

# Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

**2. Significant Accounting Policies** (continued)

***Accounting Estimates***

The preparation of the consolidated 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. Significant areas requiring the use of management estimates relate to the useful lives of capital assets, valuation allowances for accounts receivable and inventory, liability for contaminated sites, and obligations for pension and non-pension post employment benefits. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the consolidated financial statements in future periods could be significant. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the consolidated statement of operations in the year in which they become known.

***Cash and Cash Equivalents***

Cash includes cash on hand, balances with banks, and internally restricted cash.

***Financial Instruments***

The Commission classifies its financial instruments as either fair value or amortized cost. The accounting policy for each category is as follows:

***Fair value***

This category includes cash and cash equivalents which is initially recognized at cost and subsequently carried at fair value.

Transaction costs related to financial instruments in the fair value category are expensed as incurred.

***Amortized cost***

This category includes accounts receivable, accounts payable and accrued liabilities and long-term debt. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets, except for contributions, which are initially recognized at fair value.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Writedowns on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the writedown being recognized in the statement of operations.

# Ontario Northland Transportation Commission
# Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

## 2. Significant Accounting Policies (continued)

***Liabilities for Contaminated Sites***

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the Commission is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring. The liability is recorded net of any expected recoveries.

## 3. Inventory

The cost of inventory expensed to operations and used in capital projects for 2017 was $12,357 (2016 - $9,478).

## 4. Restricted Cash

| | 2017 | 2016 |
|---|---|---|
| Externally restricted – Deferred Contributions (Note 7) | $ 2,185 | $ 2,169 |
| Internally restricted – Reserve for Self Insurance (Note 11) | 86 | 4,705 |
| | $ 2,271 | $ 6,874 |

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

### 5. Capital Assets

| | 2017 | | | 2016 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| **Rail Services** | | | | |
| Roadway | $ 443,671 | $ 163,290 | $ 280,381 | $ 256,345 |
| Buildings | 51,019 | 24,359 | 26,660 | 23,178 |
| Equipment | 92,094 | 60,443 | 31,651 | 26,282 |
| Under construction | 21,731 | - | 21,731 | 19,483 |
| **Motor Coach Services** | | | | |
| Buildings | 2,910 | 686 | 2,224 | 2,246 |
| Coaches | 10,684 | 1,332 | 9,352 | 7,607 |
| **Refurbishment** | | | | |
| Buildings | 3,999 | 847 | 3,152 | 3,230 |
| Equipment | 1,082 | 224 | 858 | 873 |
| **Development** | | | | |
| Buildings | - | - | - | 1,429 |
| | $ 627,190 | $ 251,181 | $ 376,009 | $ 340,673 |

# Ontario Northland Transportation Commission
# Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

## 6. Employee Future Benefits

The Commission is the administrator of its contributory pension plan which covers all permanent staff. The pension fund assets primarily include marketable securities, real estate and corporate and government bonds, which are invested by professional investment managers. The Commission's pension plans have an annual measurement date of December 31st.

The accrued pension benefit asset and non-pension benefit obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practices and Canadian public sector accounting standards using management's best estimates. The date of the most recent actuarial valuation for the contributory pension plans for funding purposes was January 1, 2014. In accordance with existing pension regulations, annual valuations will be completed for the Commission's pension plans. The date of the most recent report for accounting purposes for the non-pension post employment benefit plan was December 31, 2016.

The pension plan's asset target percentage allocation and average asset allocation as at March 31, 2017, by category are as follows:

| | | Target | **2017** | 2016 |
|---|---|---|---|---|
| Equity securities | – Domestic | 20% - 30% | **26.7%** | 26.9% |
| | – Foreign | 10% - 30% | **20.7%** | 24.3% |
| Debt securities | | 35% - 55% | **49.1%** | 45.4% |
| Real estate | | 0% - 15% | **1.8%** | 1.8% |
| Short-term and other | | 0% - 15% | **1.7%** | 1.6% |
| Total | | | **100%** | 100% |

# Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

**6. Employee Future Benefits** (continued):

**a. Reconciliation of accrued benefit obligation to accrued benefit asset (liability):**

**Pension Plans:**

| | Pension | SERP | 2017 Total | 2016 Actual |
|---|---|---|---|---|
| Accrued benefit obligation | $ (553,202) | $ (3,514) | $ (556,716) | $ (540,195) |
| Plan assets at fair value | 523,157 | - | 523,157 | 524,801 |
| Funded status - plan (deficit) surplus | (30,045) | (3,514) | (33,559) | (15,394) |
| Unamortized net actuarial loss | 71,554 | 1,202 | 72,756 | 54,697 |
| Accrued benefit asset (liability) net of valuation allowance, end of year | $ 41,509 | $ (2,312) | $ 39,197 | $ 39,303 |

| | Pension | SERP | 2017 Total | 2016 Actual |
|---|---|---|---|---|
| Accrued benefit asset, beginning of year | $ 41,513 | $ (2,210) | $ 39,303 | $ 35,072 |
| Employee future benefit expense | (10,851) | (318) | (11,169) | (9,703) |
| Funding contributions | 10,847 | 216 | 11,063 | 13,934 |
| Accrued benefit asset, end of year | $ 41,509 | $ (2,312) | $ 39,197 | $ 39,303 |

# Ontario Northland Transportation Commission
# Notes to Consolidated Financial Statements
(dollars in thousands)

**Year ended March 31, 2017**

6. **Employee Future Benefits** (continued):

b. **Reconciliation of accrued benefit obligation to accrued benefit asset (liability)**

**Non-Pension Benefit Plans:**

| | 2017 | 2016 |
|---|---|---|
| **Accrued benefit obligation,** end of year | $ **(88,246)** | $ (87,343) |
| Unamortized net actuarial gain | **2,063** | 691 |
| **Accrued benefit liability,** end of year | $ **(86,183)** | $ (86,652) |
| **Accrued benefit liability,** beginning of year | $ **(86,652)** | $ (82,959) |
| Benefit expense | **(3,638)** | (7,517) |
| Benefits paid | **4,107** | 3,824 |
| **Accrued benefit liability,** end of year | $ **(86,183)** | $ (86,652) |

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $ 15,296 (2016 - $15,675). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2016.

c. **Components of Net Periodic Pension Benefit Expense**

| | 2017 | 2016 |
|---|---|---|
| Current service cost less employee contributions | $ **5,581** | $ 5,050 |
| Interest on accrued benefit obligation | **29,137** | 29,735 |
| Expected return on plan assets | **(28,107)** | (29,006) |
| Amortization of net actuarial loss | **4,558** | 3,924 |
| | $ **11,169** | $ 9,703 |

# Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

6. **Employee Future Benefits** (continued):

d. **Components of Net Periodic Non-Pension Benefit Expense**

| | **2017** | 2016 |
|---|---|---|
| Current service cost | **$ 2,334** | $ 3,759 |
| Interest on accrued benefit obligation | **2,662** | 2,530 |
| Amortization of net actuarial (gains) losses | **(1,358)** | 1,228 |
| | **$ 3,638** | $ 7,517 |

Total pension and non-pension benefit expense included in Labour and Benefits on the Statement of Operations is $14,807 (2016 - $17,220).

e. **Weighted Average Assumptions**

| | | |
|---|---|---|
| Discount rate - pension | **5.25%** | 5.50% |
| Discount rate - non pension | **3.61%** | 3.55% |
| Discount rate – long-term disability | **3.61%** | 3.55% |
| Discount rate - WSIB | **4.50%** | 4.75% |
| Expected long-term rate of return on plan assets | **5.25%** | 5.50% |
| Rate of compensation increase | | |
| 2016 | **1.2 %** | 1.2% |
| 2017 to 2019 | **2.0 %** | 2.0% |
| 2020 | **2.5 %** | 2.5% |
| 2021 & thereafter | **3.0%** | 3.0% |
| Average remaining service period (years) | **12** | 12 |
| Drug cost increases (grading down to 5% in 2020) | **6.50%** | 7.50% |
| Medical and hospital cost increases | **5.00%** | 5.00% |
| Dental cost increases | **4.50%** | 4.50% |
| Vision care cost increases | **0%** | 0% |

# Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
(dollars in thousands)

**Year ended March 31, 2017**

### 7. Deferred Contributions

Deferred contributions are restricted funds received from the Province to be used only on future expenditures relating to refurbishment bids for new contracts. These contributions will be recognized as revenue in the fiscal year the related expenditures are incurred.

The change in the deferred contributions balance is as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Balance,** beginning of year | **$** | **2,169** | $ | 2,068 |
| Interest income | | **16** | | 101 |
| **Balance,** end of year | **$** | **2,185** | $ | 2,169 |

### 8. Deferred Capital Contributions

Deferred capital contributions represent the unamortized capital contributions received from the Province to fund the acquisition of capital assets. The amortization of deferred capital contributions is recorded as revenue in the consolidated statement of operations using rates similar to those used to amortize the related assets acquired.

The changes in the unamortized deferred capital contributions balance are as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Balance,** beginning of year | **$** | **227,988** | $ | 199,696 |
| Contributions from the Province | | **48,753** | | 36,997 |
| Amortization to revenue | | **(7,666)** | | (8,705) |
| Retirements and transfers | | **(518)** | | - |
| **Balance,** end of year | **$** | **268,557** | $ | 227,988 |

# Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

### 9. Long-term Debt

| | 2017 | 2016 |
|---|---|---|
| Loan from Ontario Financing Authority, bearing interest at 5.22 % per annum, repayable in blended monthly payments of $30 for 15 years beginning February 1, 2005 | **$ 962** | $ 1,269 |
| Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of $13 for 25 years beginning February 1, 2006. | **1,603** | 1,682 |
| | **2,565** | 2,951 |
| **Less current portion** | **406** | 386 |
| **Long-term debt** | **$ 2,159** | $ 2,565 |

Interest on long-term debt was $140 (2016 - $159).

Principal payments required in the next five years and thereafter are as follows:

| | |
|---|---|
| 2017-2018 | $ 406 |
| 2018-2019 | 428 |
| 2019-2020 | 390 |
| 2020-2021 | 96 |
| 2021-2022 | 101 |
| Thereafter | 1,144 |
| | $ 2,565 |

### 10. Contaminated sites

The liability for remediation results from specific minerals contaminating soil in a former transloading operation. Based on engineering studies completed to date, the estimated liability is $3,500 (2016 - $3,500). This liability is subject to measurement uncertainty and the Commission will be conducting further studies in the future. Changes to this estimated liability will be recorded in the year they become known.

# Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

### 11. Internally Restricted Net Assets – Reserve for Self Insurance

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annually the Commission gives consideration to transferring funds from its' unrestricted net assets to the Reserve for Self Insurance (the "Reserve") to finance such costs. Interest earned on the reserve balance and claims expensed in the reserve balance are recorded as revenue and expenses in the consolidated statement of operations then transferred to/from the Reserve.

Periodically, the Commission borrows cash from the Reserve for its temporary use. The Commission pays interest to the Reserve at the bank's prime rate less 1.75% on these temporary borrowings.

The Reserve was significantly depleted in the year. The Commission and the Province are working on an implementation plan to deal with the self insurance fund and any related funding.

### 12. Government Contributions

A Memorandum of Understanding between the Commission and the Minister of Northern Development and Mines dated November 4, 2016, defines the amount of operating and capital contributions provided each fiscal year.

Details of Government contributions received during the year are as follows:

| | **2017** | 2016 |
|---|---|---|
| **Ministry of Northern Development and Mines:** | | |
| Rail - Passenger Service and Moosonee Branch | **$ 17,144** | $ 15,984 |
| Rail and Other System Operations | **11,448** | 19,390 |
| Pension deficit funding pressure | **5,852** | 9,882 |
| | **$ 34,444** | $ 45,256 |
| Special Operating – Ontera towers (Note 18) | **780** | - |
| Subtotal | **35,224** | 45,256 |
| Capital contributions (Note 8) | **48,753** | 36,997 |
| Total Government contributions | **$ 83,977** | $ 82,253 |

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

### 13. Segmented Information Disclosures

The Commission is a diversified operational enterprise of the Province of Ontario that provides a wide range of services to its customers in Northeastern Ontario such as rail and motor coach transportation, refurbishment and freight services. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

**Rail Services**

Rail services relates to providing logistics and transportation solutions and the shipment of large quantities of products to and from Northeastern Ontario.

**Polar Bear Services**

Polar Bear Services relates to providing passenger transportation and shipping solutions between Cochrane and Moosonee.

**Motor Coach Services**

Motor coach services provides shipping solutions and passenger transportation to connect communities throughout Northeastern Ontario.

**Remanufacturing and Repair**

The Remanufacturing and Repair team is responsible for the repair and rehabilitation of railway rolling stock from customers spanning North America.

**Administration**

This relates to the expenses for the operations of the Commission itself and cannot be directly attributed to specific segments. It also includes some rental of properties to external customers in order to reduce overall costs.

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

**13. Segmented Information Disclosures** (continued)

| | Rail Services | Polar Bear Services | Motor Coach Services | Remanufacturing and Repair | Administration | Government Operating Contributions | 2017 Total |
|---|---|---|---|---|---|---|---|
| Revenues | 37,977 | 8,198 | 10,809 | 4,130 | 321 | - | 61,435 |
| Expenses | | | | | | | |
| Labour and fringe benefits | 18,072 | 14,293 | 5,396 | 2,149 | 5,942 | - | 45,852 |
| Materials and parts | 7,547 | 4,049 | 2,193 | 1,582 | 145 | - | 15,516 |
| Services | 2,743 | 1,651 | 2,040 | 188 | 1,376 | - | 7,998 |
| Supplies and equipment | 1,972 | 1,454 | 553 | 129 | 367 | - | 4,475 |
| Other | 2,973 | 1,453 | 1,152 | 84 | 2,710 | - | 8,372 |
| | 33,307 | 22,900 | 11,334 | 4,132 | 10,540 | - | 82,213 |
| Excess (deficiency) revenues over expenses before items below: | 4,670 | (14,702) | (525) | (2) | (10,219) | - | (20,778) |
| Derailments | 5,102 | - | - | - | - | - | 5,102 |
| Demolition – Ontera towers | - | - | - | - | 780 | - | 780 |
| Interest on long-term debt | 59 | - | 81 | - | - | - | 140 |
| (Gain) loss on sale of capital assets | (316) | 1,059 | (35) | - | 758 | - | 1,466 |
| Investment income | - | - | - | - | (35) | - | (35) |
| Amortization of capital assets | 9,571 | 2,942 | 788 | 362 | 446 | - | 14,109 |
| Employee future benefits | 10,213 | 873 | 1,742 | 129 | 1,850 | - | 14,807 |
| Deficiency of revenues over expenses before government funding | (19,959) | (19,576) | (3,101) | (493) | (14,018) | - | (57,147) |
| Government operating contributions | - | - | - | - | - | 35,224 | 35,224 |
| Amortization of deferred capital contributions | 4,122 | 2,432 | 738 | 49 | 325 | - | 7,666 |
| Excess (deficiency) of revenues over expenses | (15,837) | (17,144) | (2,363) | (444) | (13,693) | 35,224 | (14,257) |

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

**13. Segmented Information Disclosures** (continued)

| | Rail Services | Polar Bear Services | Motor Coach Services | Remanufacturing and Repair | Administration | Government Operating Contributions | 2016 Total |
|---|---|---|---|---|---|---|---|
| Revenues | 38,898 | 7,546 | 10,564 | 4,723 | 783 | - | 62,514 |
| Expenses | | | | | | | |
| Labour and fringe benefits | 18,387 | 12,958 | 5,638 | 772 | 8,617 | - | 46,372 |
| Materials and parts | 6,894 | 4,037 | 2,262 | 351 | 155 | - | 13,699 |
| Services | 2,579 | 1,944 | 2,765 | 165 | 1,972 | - | 9,425 |
| Supplies and equipment | 2,029 | 1,265 | 468 | 48 | 386 | - | 4,196 |
| Other | 3,275 | 1,349 | 1,244 | 326 | 2,633 | - | 8,827 |
| | 33,164 | 21,553 | 12,377 | 1,662 | 13,763 | - | 82,519 |
| Excess (deficiency) revenues over expenses before items below: | 5,734 | (14,007) | (1,813) | 3,061 | (12,980) | - | (20,005) |
| Interest on long-term debt | 75 | - | 84 | - | 4 | - | 163 |
| (Gain) loss on sale of capital assets | (645) | - | 330 | - | - | - | (315) |
| Investment income | - | - | - | - | (49) | - | (49) |
| Amortization of capital assets | 8,804 | 2,777 | 1,108 | 20 | 2,798 | - | 15,507 |
| Employee future benefits | 11,925 | 1,410 | 1,543 | 258 | 2,084 | - | 17,220 |
| Excess (deficiency) of revenues over expenses before government funding | (14,425) | (18,194) | (4,878) | 2,783 | (17,817) | - | (52,531) |
| Government operating contributions | - | - | - | - | - | 45,256 | 45,256 |
| Amortization of deferred capital contributions | 3,211 | 2,210 | 614 | 20 | 2,650 | - | 8,705 |
| Excess (deficiency) of revenues over expenses | (11,214) | (15,984) | (4,264) | 2,803 | (15,167) | 45,256 | 1,430 |

# Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

### 14. Foreign Currency Translation

Included in Rail revenue is a foreign currency gain of $1,994 (2016 - gain of $2,245) arising mainly from rail traffic settlements between Canada and the U.S.A.

### 15. Contingencies

In the normal course of its operations, various statements of claim have been issued against the Commission claiming damages for personal injury, property damages, environmental actions and employment-related issues. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims are unfounded or covered by insurance after application of a $2,000 deductible. Should any loss result, it would be charged to the consolidated statement of operations when the amount is ascertained.

### 16. Commitments

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees. To the extent of any actual claims under these agreements, the Commission would maintain provisions for such items. Due to the nature of these agreements, the exposure for future payments may be material. However, such exposure would be based on certain actions of the Commission that have not occurred and as such no provision has been made as at the year-end date.

### 17. Economic Dependence - customers

The Rail Services Division derives substantially all of its revenue from four major customers.

### 18. Other Expenses

Included in Other expenses for the year are the following:

i. During the year the Commission incurred $5,102 in costs related to primarily two separate derailments that occurred along its rail line. These costs include labour, benefits, parts and third party contractor costs. The costs were incurred to clean up, do environmental testing, and perform track repairs.

ii. During the year the Commission incurred $780 in costs relating to the demolition of communication towers in northern Ontario. These towers were originally sold as part of the Ontera disposition in fiscal 2015, however they were transferred back to the Commission in fiscal 2017. Due to environmental concerns the towers were demolished during the year and an on-going environmental assessment is being performed over the next year. The Province provided contributions towards these expenses in the amount of $780.

# Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

### 19. Settlement Expenses

In connection with the cancellation of the Northlander passenger train operation in 2012, a wage settlement agreement was negotiated with the United Steelworkers, the bargaining agent for those employees. The agreement was signed in August 2013 and will result in wage continuation and maintenance of basic rates payments extending into August 2017 amounting to $2,913. In the current fiscal year $616 was paid out relating to this obligation.

### 20. Financial Instrument Classification

The following table provides cost and fair value information of financial instruments by category. The maximum exposure to credit risk would be the carrying value as shown below.

| | 2017 | | |
|---|---|---|---|
| | Fair Value | Amortized Cost | Total |
| Cash and cash equivalents | $ 1,008 | $ - | $ 1,008 |
| Accounts receivable | - | 21,479 | 21,479 |
| Accounts payable and accrued liabilities | - | 19,255 | 19,255 |
| Long-term debt | - | 2,565 | 2,565 |
| | $ 1,008 | $ 43,299 | $ 44,307 |

# Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

**20. Financial Instrument Classification** (continued)

| | 2016 | | |
|---|---|---|---|
| | Fair Value | Amortized Cost | Total |
| Cash and cash equivalents | $ 2,052 | $ - | $ 2,052 |
| Accounts receivable | - | 46,279 | 46,279 |
| Accounts payable and accrued liabilities | - | 35,544 | 35,544 |
| Long-term debt | - | 2,951 | 2,951 |
| | $ 2,052 | $ 84,774 | $ 86,826 |

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, 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).

| | **2017** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Cash and cash equivalents | **$ 1,008** | **$ -** | **$ -** | **$ 1,008** |

| | 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | $ 2,052 | $ - | $ - | $ 2,052 |

There were no transfers between Level 1 and 2 for the years ended March 31, 2017 and 2016. There were no transfers in or out of Level 3.

# Ontario Northland Transportation Commission
# Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

## 21. Financial Instrument Risk Management

*Credit risk*

Credit risk is the risk of financial loss to the Commission if a debtor fails to make payments of interest and principal when due. The Commission is exposed to this risk relating to its cash and accounts receivable. The Commission holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, the Commission's cash accounts are insured up $400,000 (2016 - $400,000).

Accounts receivable are due from customers and the Province of Ontario. Credit risk is mitigated by financial approval processes before a customer is granted credit. The Commission measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the Commission's historical experience regarding collections. The amounts outstanding at year end were as follows:

| **March 31, 2017** | | | | **Past Due** | |
|---|---|---|---|---|---|
| | **Total** | **Current** | **1-30 days** | **31-60 days** | **over 61 days** |
| **Government receivables** | **$ 10,144** | **$ 6,055** | **$ 4,089** | **$ -** | **$ -** |
| **Customer receivables** | **11,408** | **7,836** | **1,326** | **162** | **2,085** |
| **Gross receivables** | **21,552** | **13,891** | **5,415** | **162** | **2,085** |
| **Less: impairment allowances** | **(73)** | **-** | **-** | **-** | **(73)** |
| **Net receivables** | **$ 21,479** | **$ 13,891** | **$ 5,415** | **$ 162** | **$ 2,012** |

| March 31, 2016 | | | | Past Due | |
|---|---|---|---|---|---|
| | Total | Current | 1-30 days | 31-60 days | over 61 days |
| Government receivables | $ 37,395 | $ 37,395 | $ - | $ - | $ - |
| Customer receivables | 8,961 | 7,827 | 195 | 180 | 759 |
| Other receivables | 7 | 7 | - | - | - |
| Gross receivables | 46,363 | 45,229 | 195 | 180 | 759 |
| Less: impairment allowances | (84) | - | - | - | (84) |
| Net receivables | $ 46,279 | $ 45,229 | $ 195 | $ 180 | $ 675 |

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

# Ontario Northland Transportation Commission
# Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

**21. Financial Instrument Risk Management** (continued)

*Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

*Currency risk*

Currency risk relates to the Commission operating in different currencies and converting non-Canadian earnings at different points in time when adverse changes in foreign currency rates occur. The Commission maintains a USD bank account to receive USD from customers and to pay USD to suppliers and other carriers. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

*Interest rate risk*

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Commission is exposed to this risk through its interest bearing long-term debt.

The Commission's long-term debt as described in Note 8 would not be impacted as the inherent rate of the debt has been fixed.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

*Equity risk*

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Commission is not exposed to this risk.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

*Liquidity risk*

Liquidity risk is the risk that the Commission will not be able to meet all cash outflow obligations as they come due. The Commission mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and regular reports to the Province of Ontario.

## Ontario Northland Transportation Commission
## Notes to Consolidated Financial Statements
**(dollars in thousands)**

**Year ended March 31, 2017**

**21. Financial Instrument Risk Management** (continued)

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows of financial liabilities):

| | 2017 | | | |
|---|---|---|---|---|
| | **Within 6 months** | **6 months to 1 year** | **1-5 years** | **> 5 years** |
| Accounts payable | **$ 19,255** | **$ -** | **$ -** | **$ -** |
| Long-term debt | **203** | **203** | **1,120** | **1,039** |
| Total | **$ 19,458** | **$ 203** | **$ 1,120** | **$ 1,039** |

| | 2016 | | | |
|---|---|---|---|---|
| | Within 6 months | 6 months to 1 year | 1-5 years | > 5 years |
| Accounts payable | $ 35,544 | $ - | $ - | $ - |
| Long-term debt | 193 | 193 | 1,320 | 1,245 |
| Total | $ 35,737 | $ 193 | $ 1,320 | $ 1,245 |

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

**22. Comparative Figures**

Prior year's figures have been reclassified where necessary to conform to the current year's financial statement presentation ontario place

June 22, 2017

Management's Responsibility for Financial Reporting

The management of Ontario Place Corporation is responsible for the integrity and fair presentation of the financial statements accompanying this report. The financial statements have been prepared in accordance with Canadian public sector accounting standards and of necessity include some amounts that are based on estimates and judgements.

Ontario Place maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable, the company assets and liabilities are adequately accounted for and assets are safeguarded. The systems include policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The financial statements have been reviewed by Ontario Place's Audit Committee and have been approved by its Board of Directors. In addition, the financial statements have been audited by the Office of the Auditor General of Ontario, whose responsibility it is to express an opinion on whether they have been prepared in accordance with Canadian public sector accounting standards. The Independent Auditor's Report that appears as part of the financial statements outlines the scope of the Auditors examination and opinion.

On behalf of management:

| | | |
|---|---|---|
| Nancy Rowland<br>General Manager(A) | Hunter Saggar<br>Senior Manager, Corporate Services | Tsong Liu, CPA, CGA, MBA<br>Financial Controller |

**Ontario Place Corporation** 955 Lake Shore Blvd West Toronto, ON M6K 3B9
**Société d'exploitation de la Place de l'Ontario** 955, boulevard Lake Shore ouest Toronto, (Ontario) M6K 3B9
An Agency of the Government of Ontario/Un organisme du gouvernement de l'Ontario

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

***Independent Auditor's Report***

To Ontario Place Corporation
and to the Minister of Tourism, Culture and Sport

I have audited the accompanying financial statements of the Ontario Place Corporation, which comprise the statement of financial position as at December 31, 2016, and the statements of operations, 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**

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 Place Corporation as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Toronto, Ontario
June 22, 2017

Susan Klein, CPA, CA, LPA
Assistant Auditor General

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# Ontario Place Corporation

## Statement of Financial Position
## As at December 31, 2016

| | 2016 ($000) | 2015 ($000) |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | 9,882 | 7,611 |
| Cash – restricted [Note 3] | 259 | 1,654 |
| Accounts receivable [Note 4] | 2,608 | 2,257 |
| Inventory | 3 | 18 |
| Prepaid expenses and deferred charges | 33 | 45 |
| | 12,785 | 11,585 |
| **Non-current Assets** | | |
| Capital assets [Note 5] | 109,006 | 108,821 |
| Remediation funding receivable [Note 7] | 50,000 | 50,000 |
| | 159,006 | 158,823 |
| | 171,791 | 170,406 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities [Note 6] | 2,819 | 2,568 |
| Accrued employee benefits obligation [Note 10(B)] | 58 | 56 |
| Due to the Province of Ontario | 62 | 135 |
| Deferred revenue | 62 | 78 |
| | 3,001 | 2,837 |
| **Long Term Liabilities** | | |
| Accrued employee benefits obligation [Note 10(B)] | 153 | 138 |
| Liability for contaminated site [Note 7] | 50,000 | 50,000 |
| | 50,153 | 50,138 |
| Deferred remediation funding | 50,000 | 50,000 |
| Deferred capital contributions [Note 8] | 6,810 | 7,048 |
| Unspent deferred capital contributions [Notes 3 & 8] | 259 | 1,154 |
| | 57,069 | 58,202 |
| **Net Assets** | | |
| Invested in capital assets [Note 9] | 101,682 | 101,682 |
| Unrestricted | (40,114) | (42,453) |
| | 61,568 | 59,229 |
| | 171,791 | 170,406 |

See accompanying schedules and notes to financial statements.

Approved on behalf of the Corporation:

Chair

Board Member, Chair of Audit Committee

# Ontario Place Corporation

## Statement of Operations
## For the Year Ended December 31, 2016

| | 2016 ($ 000) | 2015 ($ 000) |
|---|---|---|
| Operating revenue [Schedule 1] | 7,239 | 6,176 |
| Administrative and operating expenses [Schedule 2] | 7,400 | 6,330 |
| Operating deficit before the undernoted items | (161) | (154) |
| Ontario Place Revitalization[Note 13] | 172 | (6,402) |
| HST reassessment [Note 14] | 258 | - |
| Total undernoted items | 430 | (6,402) |
| Operating surplus/ (deficit) before the following: | 269 | (6,556) |
| Province of Ontario operating grant | 2,070 | 1,625 |
| Province of Ontario restricted grant [Note 13] | - | 6,000 |
| Amortization of deferred capital contributions | 1,133 | 835 |
| Amortization of capital assets | (1,133) | (835) |
| Amortization of capital assets under lease | - | (31) |
| | 2,070 | 7,594 |
| **Excess of revenue over expenses** | 2,339 | 1,038 |

See accompanying schedules and notes to financial statements.

# Ontario Place Corporation

## Statement of Changes in Net Assets
## For the Year Ended December 31, 2016

| | 2016 ($ 000) | | | 2015 ($ 000) |
|---|---|---|---|---|
| | Invested in Capital Assets | Unrestricted | Total | Total |
| Net assets, beginning of year | 101,682 | (42,453) | 59,229 | 58,191 |
| Excess of revenues over expenses | - | 2,339 | 2,339 | 1,038 |
| Net assets, end of year | 101,682 | (40,114) | 61,568 | 59,229 |

See accompanying schedules and notes to financial statements.

# Ontario Place Corporation

## Statement of Cash Flows
## For the Year Ended December 31, 2016

| | 2016 ($ 000) | 2015 ($ 000) |
|---|---|---|
| **Operating Activities** | | |
| Excess of revenues over expenses | 2,339 | 1,038 |
| Adjustments for items not requiring an outlay of cash | | |
| Gain on sale of capital assets | (172) | (99) |
| Amortization of capital assets | 1,133 | 835 |
| Amortization of leased capital asset | - | 31 |
| Amortization of deferred capital contributions | (1,133) | (835) |
| Net change in non-cash working capital | (160) | (296) |
| Long-term portion of accrued employee benefits obligation | 15 | (11) |
| Cash used in operating activities | 2,022 | 663 |
| **Capital Activities** | | |
| Capital asset acquisitions | (1,318) | (300) |
| Proceeds on sale of capital assets, net | 172 | 99 |
| Cash used in investing activities | (1,146) | (201) |
| **Financing Activities** | | |
| Obligation under capital lease principal paid | - | (73) |
| Cash used in financing activities | - | (73) |
| **Increase in cash during the year** | 876 | 389 |
| **Cash, beginning of year** | 9,265 | 8,876 |
| **Cash, end of year** | 10,141 | 9,265 |
| **Cash and cash equivalents** | 9,882 | 7,611 |
| **Cash – restricted** | 259 | 1,654 |
| | 10,141 | 9,265 |

See accompanying schedules and notes to financial statements.

# Ontario Place Corporation

## Schedules of Operating Revenue and Administrative and Operating Expenses
## For the Year Ended December 31, 2016

| | 2016 ($ 000) | 2015 ($ 000) |
|---|---|---|
| **Schedule 1** | | |
| **Operating Revenue** | | |
| Amphitheatre | 3,306 | 2,614 |
| Parking | 1,549 | 1,247 |
| Concessions and facility rental | 1,235 | 1,286 |
| Marina | 598 | 518 |
| Other revenue | 268 | 245 |
| Marina retail sales | 209 | 201 |
| Interest income | 74 | 65 |
| | 7,239 | 6,176 |
| **Schedule 2** | | |
| **Administrative and Operating Expenses** | | |
| Salaries and wages | 1,776 | 1,461 |
| Employee benefits [Note 10] | 300 | 274 |
| Site maintenance | 1,790 | 1,234 |
| Administration and property tax | 1,761 | 1,538 |
| Utilities | 1,215 | 1,243 |
| Supplies | 229 | 229 |
| Cost of retail sales | 147 | 169 |
| Janitorial | 115 | 126 |
| Transportation and communications | 49 | 56 |
| Special project (Ontario 150) | 18 | - |
| | 7,400 | 6,330 |

See accompanying notes to financial statements.

# Ontario Place Corporation

## Notes to Financial Statements
## December 31, 2016

## 1. Nature of Operations

The Ontario Place Corporation, (the "Corporation" or "Ontario Place") is a provincial Crown agency, incorporated under the *Ontario Place Corporation Act* R.S.O. 1990. The Corporation is exempted from federal and provincial income taxes.

Up until February 1, 2012, the Corporation operated as a provincial exhibit and recreational centre built on a 155-acre site extending through three islands created using landfill along the Toronto waterfront. The site was intended to provide visitors with an appreciation of the Province's resources and accomplishments.

On February 1, 2012 the Minister of Tourism, Culture and Sport announced the partial closure and revitalization of Ontario Place. It was announced that the following operations would remain open while revitalization plans were developed: Ontario Place Marina, Molson Canadian Amphitheatre, Atlantis Pavilion and the parking lots. All other operations, including the Cinesphere, Waterpark, amusement rides and games and concession stands were closed.

In addition to the various services operated by Ontario Place, the Corporation enters into a number of licence, ground lease and special event agreements with various private-sector companies. The fees charged for these event agreements are subject to approval by the Ministry of Tourism, Culture and Sport, through the fee schedule presented in the annual Ontario Place Business Plan.

The Corporation receives grants from the Province to partially cover the costs of ongoing operations.

## 2. Significant Accounting Policies

### (A) BASIS OF ACCOUNTING

The financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards including the standards for government not-for-profit organizations.

### (B) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and cashable fixed-term guarantee income certificate.

### (C) REVENUE RECOGNITION

Grants are recognized on an accrual basis.

Provincial grants restricted for the purchase of capital assets are deferred and amortized into revenue over the same period as the related capital asset.

Provincial grants received to remediate contamination on the site are deferred and recognized in revenue when the related remediation costs are incurred.

Revenue from parking, rentals, concessions and marina dockage are recognized when the goods or services are provided.

Revenue from amphitheatre represents rental revenue for the ground lease as determined by contractual agreement; in addition, revenue is calculated on an escalating scale based on the level of gross revenue achieved at the amphitheatre in excess of a base rent amount.

# Ontario Place Corporation

**Notes to Financial Statements**
**December 31, 2016**

## 2. Significant Accounting Policies (Continued)

### (D) INVENTORY

Supplies inventory is valued at cost.

### (E) CAPITAL ASSETS

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the assets as indicated below:

| | |
|---|---|
| Buildings | 25 years |
| Structures | 10 years |
| Equipment, fixtures | 10 years |
| Computer equipment | 4 years |

Cost includes construction in progress. Assets under construction are not amortized until the asset is available for productive use.

### (F) 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 expenditures during the year. Items requiring significant estimates include liabilities for contaminated site, and the related accounts receivable and deferred revenue to fund this liability. Actual amounts could differ from these estimates.

### (G) FINANCIAL INSTRUMENTS

Ontario Place follows the Canadian public sector accounting standards pertaining to financial instruments. The Corporation's financial assets and liabilities are accounted for as follows:

Cash and cash equivalents, and Restricted cash are subject to an insignificant risk of change in value so carrying value approximates fair value.

Accounts receivable are recorded at cost.

Accounts payable and accrued liabilities, Due to the Province and Deferred revenue are recorded at cost.

Ontario Place does not use derivative financial instruments.

## 3. Cash – Restricted

The following grants from the Province of Ontario are held by Ontario Place as externally restricted cash:

| | 2016 ($000) | 2015 ($000) |
|---|---|---|
| Unspent deferred capital contribution (Note 8) | 259 | 1,154 |
| Compensation for early license agreement termination (Note 13) | – | 500 |
| | 259 | 1,654 |

# Ontario Place Corporation

## Notes to Financial Statements
## December 31, 2016

### 4. Accounts Receivable

| | 2016 ($000) | 2015 ($000) |
|---|---|---|
| Province of Ontario – restricted grant | - | 1,125 |
| Province of Ontario – operating grant | 2,070 | 625 |
| Trade | 363 | 450 |
| Other | 175 | 57 |
| | 2,608 | 2,257 |

### 5. Capital Assets

| | 2016 | | | 2015 |
|---|---|---|---|---|
| | Cost ($ 000) | Accumulated Amortization ($ 000) | Net Book Value ($ 000) | Net Book Value ($ 000) |
| Land, waterlots | 101,660 | – | 101,660 | 101,660 |
| Buildings | 7,604 | 2,721 | 4,883 | 4,928 |
| Structures | 825 | 467 | 358 | 768 |
| Equipment, fixtures | 2,870 | 1,632 | 1,238 | 1,400 |
| Computer equipment | 240 | 163 | 77 | 65 |
| Construction-in-Progress | 790 | – | 790 | – |
| | 113,989 | 4,983 | 109,006 | 108,821 |

### 6. Accounts Payable and Accrued Liabilities

Accounts payable relate largely to nonnal business transactions with third-party vendors and are subject to standard commercial terms.

### 7. Liability for Contaminated Site and Deferred Remediation Funding

The Ontario Place site was constructed by lake filling in the 1970s, utilizing urban excess soil that was generated during other development projects in the City of Toronto at that time. At the time of the original park construction, environmental standards for soil and water had not been developed and therefore the use of urban fill material was an acceptable practice. While independent environmental investigations indicate contaminants are present at levels higher than the current allowable standard, the report suggests that visitors at Ontario Place are unlikely to directly contact contaminated soil. The liability estimate is an accounting provision based on the planned redevelopment of Ontario Place for future uses.

The liability is management's best estimate based on environmental investigations performed by independent experts and reflects the costs required to remediate the site. The Province has committed to provide the Corporation with funding to remediate the contamination. As of the end of 2016, the remediation of contaminated lands has not yet commenced.

# Ontario Place Corporation

## Notes to Financial Statements
## December 31, 2016

### 7. Liability for Contaminated Site and Deferred Remediation Funding (Continued)

In 2016, it was determined by the Ministry and Infrastructure Ontario that environmental remediation of the urban park and waterfront trail was needed. The cost of this remediation was estimated at $2.9M and was paid for by the Ministry, on the Corporation's behalf.

### 8. Deferred Capital Contributions and Unspent Deferred Capital Contributions

Purchased assets have been capitalized and the corresponding capital contributions have been deferred together with unspent capital contributions. Spent capital contributions are amortized into income on the same basis that the underlying assets are amortized. The changes in the total deferred capital contributions balance are as follows:

| | 2016 ($ 000) | 2015 ($ 000) |
|---|---|---|
| Balance, beginning of year | 8,202 | 9,037 |
| Amount amortized to revenue | (1,133) | (835) |
| Balance, end of year | 7,069 | 8,202 |

| | 2016 ($ 000) | 2015 ($ 000) |
|---|---|---|
| Deferred Capital Contributions | 6,810 | 7,048 |
| Unspent Deferred Capital Contributions | 259 | 1,154 |
| Balance, end of year | 7,069 | 8,202 |

Unspent deferred capital contributions are held as restricted cash as described in Note 3.

### 9. Invested in Capital Assets

The invested in capital asset balance represents the net amount of the Corporation's investment in capital assets less the amounts financed by deferred capital contributions at year end.

### 10. Employee Benefits

#### (A) PENSION BENEFITS

The Corporation 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) which are both multiemployer plans established by the Province of Ontario. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU-PF, determines the Corporation's annual payments to the funds. Accordingly, the pension expense is the Corporation's share of the required contribution to the PSPF and OPSEU pension funds for the year, which was $96,345 (2015 – $82,837), and is included in employee benefits in the Schedule of Administrative and Operating Expenses.

# Ontario Place Corporation

**Notes to Financial Statements**
**December 31, 2016**

## 10. Employee Benefits (Continued)

### (B) ACCRUED EMPLOYEE BENEFITS OBLIGATION

The cost of unused vacation and earned legislated severance entitlements for current employees are accrued for in the financial statements under the long-term accrued employee benefits obligation. Amounts due to current employees payable within one year are included in accounts payable and accrued liabilities. Severance and other amounts due to terminated employees are included in accrued employee benefits obligation.

### (C) OTHER NON-PENSION POST EMPLOYMENT BENEFITS

The cost of other post-employment non-pension employee benefits are paid by the Ministry of Government and Consumer Services and are not included in the statement of operations.

## 11. Property Tax Appeal

The Corporation filed an appeal with the City of Toronto regarding the property valuation assessment by the Municipal Property Assessment Corporation for the tax years 2009-2014. A settlement was reached in March 2016 and management expects a refund of approximately $2.6 million. The refund will be recorded as a recovery of prior year's property taxes in the year it is received.

## 12. Financial Instruments

### (A) LIQUIDITY RISK:

Liquidity risk is the risk that the Corporation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Corporation manages its liquidity risk by monitoring its operating requirements. The Corporation 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 Corporation is exposed to credit risk arising from its trade accounts receivable.

It is management's opinion that the Corporation is not exposed to significant interest rate, currency, liquidity or credit risk arising from its other financial instruments due to their nature.

## 13. Ontario Place Revitalization

In July 2014, the Province announced its long-term vision to revitalize Ontario Place. The revitalization of Ontario Place has begun with the construction of a new urban park and waterfront trail on Ontario Place's East Island, expected to open in summer 2017. The next stage of work at Ontario Place is the land-use planning process which was initiated in 2016.

During 2015, as a consequence of park revitalization plans, the Ministry funded $6,000,000 towards the Corporation's total cost of $6,500,000 to terminate a license agreement.

# Ontario Place Corporation

## Notes to Financial Statements
## December 31, 2016

### 14. HST Reassessment

The Corporation filed an appeal with Canada Revenue Agency for the 2012-2015 tax years. During 2016, the Corporation received confirmation of a successful appeal and received $258,000, which is recorded in HST reassessment in the Statement of Operations.

### 15. Comparative Figures

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

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.

Maureen Jensen
Chair and Chief Executive Officer

H.R. Goss
Director, Corporate Services

June 6, 2017

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, 2017, and the statements 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, 2017 and its financial performance, and its cash flows for the year ended in accordance with the International Financial Reporting Standards.

Toronto, Ontario
June 6, 2017

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

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## Statement of Financial Position

(in Canadian dollars)

| As at March 31 | Note(s) | 2017 | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash | | $ 42,345,003 | $ 29,244,715 |
| Trade and other receivables | 4, 5 | 4,795,056 | 3,831,842 |
| Prepayments | | 1,527,576 | 1,522,706 |
| **Total current** | | **$ 48,667,635** | **$ 34,599,263** |
| **Non-current** | | | |
| Funds held pursuant to designated operations and settlements and orders | 3(d), 6 | 37,995,716 | 35,555,504 |
| Net assets held for CSA Systems operations and redevelopment | 2, 7, 17 | 151,732,608 | 139,855,968 |
| Reserve fund assets | 8 | 20,000,000 | 20,000,000 |
| Property, plant & equipment | 9 | 12,502,675 | 12,872,939 |
| **Total non-current** | | **$ 222,230,999** | **$ 208,284,411** |
| **Total assets** | | **$ 270,898,634** | **$ 242,883,674** |
| **LIABILITIES** | | | |
| **Current** | | | |
| Trade and other payables | 10 | $ 16,717,810 | $ 14,617,340 |
| **Total current** | | **$ 16,717,810** | **$ 14,617,340** |
| **Non-current** | | | |
| Pension liabilities | 12(b) | 3,839,928 | 3,608,042 |
| Funds held pursuant to designated settlements and orders | 3(d), 6 | 37,995,716 | 35,555,504 |
| Net assets held for CSA Systems operations and redevelopment | 2, 7, 17 | 151,732,608 | 139,855,968 |
| **Total non-current** | | **$ 193,568,252** | **$ 179,019,514** |
| **Total liabilities** | | **$ 210,286,062** | **$ 193,636,854** |
| **SURPLUS** | | | |
| General | | $ 40,612,572 | $ 29,246,820 |
| Reserve | 8, 13 | 20,000,000 | 20,000,000 |
| **Operating surplus** | | **$ 60,612,572** | **$ 49,246,820** |
| **Total liabilities and surplus** | | **$ 270,898,634** | **$ 242,883,674** |

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

**On behalf of the Board of the Commission**

Maureen Jensen
Chair

William Furlong
Chair, Audit and Finance Committee

## Statement of Comprehensive Income

(in Canadian dollars)

| For the year ended March 31 | Note(s) | 2017 | 2016 |
|---|---|---|---|
| **REVENUE** | | | |
| Fees | 3(c), 14 | $ 119,516,341 | $ 116,638,258 |
| Miscellaneous | | 167,627 | 43,216 |
| Interest income | | 243,132 | 167,951 |
| | | **$ 119,927,100** | **$ 116,849,425** |
| **EXPENSES** | | | |
| Salaries and benefits | 15 | $ 81,864,332 | $ 79,174,128 |
| Administrative | 16 | 9,084,988 | 7,737,356 |
| Occupancy | | 8,352,813 | 8,009,082 |
| Professional services | | 6,862,591 | 5,478,737 |
| Depreciation | 9 | 3,112,148 | 2,761,282 |
| Other | | 805,454 | 797,546 |
| | | **$ 110,082,326** | **$ 103,958,131** |
| Recoveries of enforcement costs | 3(g) | (160,250) | (899,940) |
| Recoveries of investor education costs | 3(g), 19 | (1,470,894) | (1,198,271) |
| | | **$ 108,451,182** | **$ 101,859,920** |
| **Excess of revenue over expenses** | | **$ 11,475,918** | **$ 14,989,505** |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **Items that will not be reclassified to profit and loss:** | | | |
| Remeasurements of defined benefit pension plans | 12(b) | $ (110,166) | $ (16,971) |
| **Other comprehensive loss** | | **$ (110,166)** | **$ (16,971)** |
| **Total comprehensive income** | | **$ 11,365,752** | **$ 14,972,534** |

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

## Statement of Changes in Surplus

(in Canadian dollars)

| For the year ended March 31 | Note(s) | 2017 | 2016 |
|---|---|---|---|
| Operating surplus, beginning of year | | $ 49,246,820 | $ 34,274,286 |
| Total comprehensive income | | 11,365,752 | 14,972,534 |
| **Operating surplus, end of year** | | **$ 60,612,572** | **$ 49,246,820** |
| **Represented by:** | | | |
| General | | $ 40,612,572 | $ 29,246,820 |
| Reserve | 8, 13 | 20,000,000 | 20,000,000 |
| | | **$ 60,612,572** | **$ 49,246,820** |

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

## Statement of Cash Flows

(in Canadian dollars)

| For the year ended March 31 | Note(s) | 2017 | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Excess of revenue over expenses | | $ 11,475,918 | $ 14,989,505 |
| **Adjusted for:** | | | |
| Interest received | | $ 232,868 | $ 160,772 |
| Interest income | | (243,132) | (167,951) |
| Interest expense on line of credit | | — | 55,188 |
| Pension liabilities | | 121,720 | 30,269 |
| Loss on disposal of property, plant & equipment | 9 | 865 | 8,201 |
| Depreciation | 9 | 3,112,148 | 2,761,282 |
| | | **$ 14,700,387** | **$ 17,837,266** |
| **Changes in non-cash working capital:** | | | |
| Trade and other receivables | | $ (952,951) | $ (849,324) |
| Prepayments | | (4,870) | (149,225) |
| Trade and other payables | | 2,100,470 | (1,465,430) |
| | | **$ 1,142,649** | **$ (2,463,979)** |
| **Net cash flows from operating activities** | | **$ 15,843,036** | **$ 15,373,287** |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | | |
| Purchase of property, plant & equipment | 9 | $ (2,742,748) | $ (3,057,689) |
| **Net cash used in investing activities** | | **$ (2,742,748)** | **$ (3,057,689)** |
| **CASH FLOWS USED IN FINANCING ACTIVITIES** | | | |
| Interest paid on line of credit | | $ — | $ (55,188) |
| **Net cash flows used in financing activities** | | **$ —** | **$ (55,188)** |
| **Net increase in cash position** | | $ 13,100,288 | $ 12,260,410 |
| **Cash, beginning of year** | | **29,244,715** | **16,984,305** |
| **Cash, end of year** | | **$ 42,345,003** | **$ 29,244,715** |

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 are as at March 31, 2017 and for the year then ended and includes comparatives. These financial statements were authorized for issue by the Board of Directors on June 6, 2017.

### (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 Note 3(e). 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. Amounts 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.

**Recoveries of investor education costs**

Beginning April 1, 2015, the OSC began recovering costs that are in accordance with subparagraph 3.4(2)(b)(ii) of the *Securities Act* (Ontario) which was amended on June 20, 2012 to expand the purposes for which enforcement monies may be designated to include "for use by the Commission 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" ("investor education costs"). The OSC developed guidelines to assist in determining which costs would be in accordance with subparagraph 3.4(2)(b)(ii). The OSC exercised judgement in evaluating the types of costs incurred which would be in accordance with these guidelines. See Note 19 for a summary of costs recovered.

**Net assets held for Canadian Securities Administrators (CSA) Systems operations and redevelopment (CSA Systems net assets)**

The OSC has been appointed to administer the financial management processes of the CSA Systems net assets, which mainly consist of surplus funds accumulated from systems fees charged to market participants. Based on an evaluation of the contractual terms and conditions related to the arrangement, OSC management has exercised judgment to determine that participants in the capital markets, 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 the net assets or any future development of the CSA Systems. The OSC has also determined that in performing its administrative role for the CSA Systems net assets, it does not control or have significant influence over how the net assets are managed.

The OSC exercised judgment to determine that the net assets administered by the OSC on behalf of CSA Systems are best represented by the presentation of an asset and a corresponding liability.

See Note 7 for more information, including summary financial information related to the CSA Systems net assets.

### (ii) Sources of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires management to 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 fiscal year.

Determining the carrying amounts of some assets and liabilities requires management to estimate 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, 2017. The OSC utilizes 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 information from other accredited sources. A change in one or more of these assumptions could have a material impact on the OSC's financial statements.

The significant actuarial assumptions used to determine the present values of the defined benefit obligations and sensitivity analysis of changes in the actuarial assumptions used are outlined in Note 12(b).

**Designated settlements and orders and Recoveries of enforcement costs**

Funds held pursuant to designated settlements and orders and Recoveries of enforcement costs are recorded when settlements are approved or orders are made by the Commission, unless management determines that collecting the settlement amount is significantly doubtful, in which case it is recognized when payment is received. Estimation is required to determine the amount of designated settlements to recognize, orders that will be collected and Recoveries of enforcement costs.

Management considers 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 these factors could 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. For more information on Designated settlements and orders, see Note 6.

## Notes to the Financial Statements

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. See 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 excess of revenues over expenses (held-for-trading), 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 excess of revenues over expenses, which are measured initially at fair value.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when all substantial risks and rewards of the financial assets are transferred.

A financial liability is derecognized when it is extinguished; that is, when the contractual obligation is discharged, cancelled or expires.

The OSC has adopted the following classifications for financial assets and financial liabilities:

##### Financial assets at fair value through excess of revenues over expenses (held-for-trading)

Cash, cash held pursuant to designated settlements and orders, funds included in the Net assets held for the CSA Systems operations and redevelopment, and Reserve fund assets are classified as held-for-trading. The recorded balances approximate their fair value.

##### 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, or a portion, of the amounts due under the terms of the amount receivable.

##### 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 impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

The cost of the Property, plant & equipment, less any residual value, is depreciated and recognized in excess of revenues over expenses on a straight-line basis over the estimated useful life of the asset, 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 |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each fiscal year. Any changes in estimates are accounted for on a prospective basis.

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 from 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 excess of revenues over expenses.

Items of Property, plant & equipment are reviewed for impairment at each reporting date. If any impairment is indicated, 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

#### 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. In addition, 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, cannot be determined 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 receipt of the fee payment. 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, except in the case of specified regulated entities that file their participation fees through the OSC's electronic filing portal, which are recognized when the fee amount can be reliably measured, which is the date the required document has been filed, or the corresponding outstanding fee is paid.

#### 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 the filing is received.

## Notes to the Financial Statements

#### Late filing fees

Late filing fees relating to insider trading reports are recognized weekly and include fees related to all insider trading reports filed late in the preceding seven-day period. Other late fee amounts are recognized when the fee amount can be reliably measured, which is the date the required document has been filed, or the corresponding outstanding fee is paid.

### (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 that collecting the settlement amount is significantly doubtful, in which case they are recognized when payment is received. Due to the restricted use of Funds held pursuant to designated settlements and orders, a corresponding Non-current liability that equals the related Non-current asset is reflected in the Statement of financial position.

### (e) Employee benefits

#### Ontario Public Service Pension Plan (OPSPP)

The OSC provides pension benefits to its full-time employees through participation in the OPSPP. The Province of Ontario is the sole sponsor of the OPSPP. This plan is accounted for as a defined contribution plan because sufficient information is not provided to the OSC or otherwise available for the OSC to apply defined benefit plan accounting to this pension plan.

The plan 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 plan. There is no deficit or surplus in the plan that could affect the amount of future contributions for the OSC.

In addition, 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 the service entitling them to the contributions. For more information on the OPSPP, see Note 12(a).

#### Supplemental pension plan

The OSC also maintains unfunded supplemental pension plans for its current and former Chairs and Vice-Chairs as described in Note 12(b). These 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 the members' length of service and their salary in the final years prior 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 are 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.

Actuarial gains and actuarial losses resulting from remeasurements of the net defined benefit liability arising from the supplemental pension plans 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 excess of revenues over expenses 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 at 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 the OSC 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

All leases currently recorded are classified as operating leases. Lease payments are expensed on a straight-line basis over the term of the lease.

If lease incentives are received to enter into operating leases, the aggregate benefit of the 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) Recoveries

### 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 that collecting the settlement amount is significantly doubtful, in which case, recovery is recognized when payment is received.

### Recoveries of investor education costs

Recoveries of investor education costs are recorded as offsets to total expenses on a quarterly basis based on the eligible expenses recorded in the quarter.

## (h) 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.

## Notes to the Financial Statements

### 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(a). 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 provides 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 due to the low number of transactions denominated 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 operations and redevelopment (cash components) and Reserve fund assets are held by Schedule 1 banks (and credit unions in British Columbia with respect to Net assets held for CSA Systems operations and redevelopment cash components). The bank balances earn interest at a rate of 1.85% below the prime rate. The average rate of interest earned on bank balances for the year was 0.85% (2016 – 0.91%).

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 | $ 29,863 | $ (29,863) |
| Cash balance | 41,786 | (41,786) |
| | **$ 71,649** | **$ (71,649)** |

#### Credit risk

The OSC is exposed to minimal credit risk related to Cash, Funds held pursuant to designated settlements and orders, Net assets held for CSA Systems operations and redevelopment, Reserve fund assets and Trade and other receivables.

Schedule 1 financial institutions hold approximately 75% of the OSC's financial assets including those held for CSA Systems operations and redevelopment and another 16% are held in two credit unions in British Columbia (for cash components of Net assets held for CSA Systems operations and redevelopment exclusively). The remaining balance of financial assets are accounts receivable. The Credit Union Deposit Insurance Corporation (CUDIC), a statutory corporation, guarantees all deposits of British Columbia credit unions, as set out in the Financial Institutions Act. Given the nature of these counterparties, it is management's opinion that exposure to concentration of credit risk is minimal. In addition, 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 $30.0 million for each category.

Trade receivable balances consist of a large number of debtors owing individually immaterial balances.

Other receivables in aggregate are material, with most debtors owing individually and in aggregate immaterial amounts, and a small number of debtors owing larger amounts, which are material in aggregate or individually, and are receivable from:

- Net assets held for CSA Systems operations and redevelopment, to recover staff and space costs and other charges incurred,
- Funds held for designated settlements and orders, to recover investor education costs,
- Government of Canada for recovering Harmonized Sales Tax (HST) paid during the year, and
- Government of Canada to recover costs for OSC space under a sublease.

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:

| | Note | March 31, 2017 | March 31, 2016 |
|---|---|---|---|
| Current | | $ 2,526,475 | $ 2,016,130 |
| Past due 31 to 60 days | | 922,861 | 1,099,936 |
| Past due 61 to 90 days | | 484,114 | 61,100 |
| Past due greater than 90 days (net) | | 861,606 | 654,676 |
| Total Trade and other receivables | 5 | **$ 4,795,056** | **$ 3,831,842** |

| **Past due greater than 90 days detail** | Note | March 31, 2017 | March 31, 2016 |
|---|---|---|---|
| Past due greater than 90 days (gross) | | $ 1,034,609 | $ 816,511 |
| Allowance for doubtful accounts | 5 | (173,003) | (161,835) |
| | | **$ 861,606** | **$ 654,676** |

Reconciliation of allowance for doubtful accounts is as follows:

| | Note | March 31, 2017 | March 31, 2016 |
|---|---|---|---|
| Opening balance | | $ 161,835 | $ 308,078 |
| Current year provision | | 316,268 | 113,210 |
| Written-off during the year | | (305,100) | (259,453) |
| Closing balance | 5 | **$ 173,003** | **$ 161,835** |

In 2017, $305,100 of Trade and other receivables that related to balances owing prior to April 1, 2016 were written off, resulting in a reduction to the allowance for doubtful accounts and a corresponding reduction of Trade and other receivables for the same amount. The amount written off was charged to bad debt expense in prior years as part of the current year provision for those prior years. The current year provision of $316,268 was charged to bad debt expense for fiscal 2017.

## Notes to the Financial Statements

### Liquidity risk

The OSC's exposure to liquidity risk is low as the OSC has sufficient cash, reserve fund assets, and access to a credit facility to settle all current liabilities. As at March 31, 2017, the OSC had a cash balance of $42.3 million and reserve fund assets of $20.0 million to settle current liabilities of $16.7 million.

The OSC has a $52.0 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 $75 thousand for one day. As at March 31, 2017, there is no amount outstanding on the credit facility.

The overall exposure to liquidity risk remains unchanged from 2016.

### 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. For more information, see Note 12(b).

## 5. Trade and other receivables

| | Notes | March 31, 2017 | March 31, 2016 |
|---|---|---|---|
| Trade receivables | | $ 717,605 | $ 845,910 |
| Other receivables | | 3,003,059 | 1,869,080 |
| Allowance for doubtful accounts | 4 | (173,003) | (161,835) |
| | | **$ 3,547,661** | **$ 2,553,155** |
| Interest receivable | | 44,230 | 33,965 |
| Amount recoverable from investor education costs | 19 | 687,769 | 629,824 |
| HST recoverable | | 515,396 | 614,898 |
| Total Trade and other receivables | 4 | **$ 4,795,056** | **$ 3,831,842** |

## 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 Board of the OSC may determine. As a result of an amendment to the *Securities Act* (Ontario) effective June 2012, these funds are eligible to be allocated to the OSC 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, including such designated internal costs as approved by the Board.

On July 14, 2016, the OSC established the Whistleblower Program (the "Program"). Under the Program, whistleblowers may be eligible for awards of between 5% to 15% of total monetary sanctions imposed and/or voluntary payments made, if their information leads to an administrative proceeding where these amounts total $1 million or more. The maximum amount of the award has been set at $1.5 million where monetary sanctions and/or voluntary payments are not collected and $5 million where these amounts have been collected. Whistleblowers will be paid out of funds held pursuant to designated settlements and orders. To date, no payments have been made under the Program.

The accumulated funds are held in a segregated bank account and earn interest at the monthly average bank prime rate less 1.85%. The Board will allocate these funds as it determines appropriate in its discretion. This includes allocations to harmed investors, where appropriate and where an allocation can be reasonably effected.

As at March 31, 2017, the accumulated balance is determined as follows:

| | Note | March 31, 2017 | March 31, 2016 |
|---|---|---|---|
| Opening balance | | $ 35,555,504 | $ 24,702,966 |
| Assessed during the year | | $ 163,955,995 | $ 223,287,035 |
| Less: | | | |
| Amounts to be paid directly to investors | | (148,057,864) | (164,260,580) |
| Orders deemed uncollectible | | (7,988,558) | (45,526,682) |
| **Amount recorded from assessments in year** | | **7,909,573** | **13,499,773** |
| Amounts collected in relation to external order | | — | 105,000 |
| Adjustments to amounts assessed in prior years | | (1,194,980) | (1,839,616) |
| **Total settlements and orders recorded** | | **6,714,593** | **11,765,157** |
| Add: Interest | | 255,131 | 195,550 |
| Add: Recovery of stale cheque previously paid to harmed investor | | — | 102,350 |
| Less: Payments | | | |
| Paid to the OSC for recovery of Investor education costs | 19 | (1,412,949) | (583,734) |
| Paid to harmed investors | | (3,116,563) | (626,785) |
| **Closing balance** | | **$ 37,995,716** | **$ 35,555,504** |
| Represented by: | | | |
| Cash | | $ 36,464,623 | $ 31,164,377 |
| Receivable | | 1,531,093 | 4,391,127 |
| | | **$ 37,995,716** | **$ 35,555,504** |

The $6,714,593 (2016 – $11,765,157) identified as total settlements and orders recorded reflects the portion of $163,955,995 (2016 – $223,287,035) in settlements and orders that was assessed during the year, for which payment was either received or has been deemed collectible. This total includes a reversal of $1,194,980 (2016 –$1,839,616) in adjustments from orders recorded in prior years. Included in the total assessed was $148,057,864 (2016 – $164,260,580) where the respondents were required to distribute monies to harmed investors, which are not captured in the OSC's accounting records.

The adjustments to amounts assessed in prior years include portions of orders that had been previously deemed as collectible that are now deemed as uncollectible in fiscal 2017, less the amounts from prior years that are on payment plans that were recorded in fiscal 2017, and the amounts that had been previously deemed uncollectible where payment was received in fiscal 2017. As at March 31, 2017, $1,531,093 (2016 – $4,391,127) was considered receivable because these amounts are expected to be collected.

The OSC collected a total of $7,905,652 (2016 – $10,959,020) of the designated settlements and orders assessed during the year, resulting in an average collection rate of 38.21% (2016 – 18.57%).

As authorized by the Board, the OSC made payments from the designated funds totalling $4,529,512 (2016 – $1,210,519). Details on the recipients of these payments are included in the table above.

## Notes to the Financial Statements

### 7. Net assets held for CSA Systems operations and redevelopment (CSA Systems net assets)

The core Canadian Securities Administrators National Systems (CSA Systems) consist 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 CSA is planning to develop and implement a new marketplace surveillance and analytical system to improve market analytics capacity.

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) to collect, hold, and administer the surplus funds accumulated from system fees charged to market participants that use the CSA Systems. This role is essentially that of a custodian. The Net assets held for CSA Systems operations and redevelopment include surplus funds accumulated from operation of the CSA Systems, which are 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.

CGI Information Systems and Management Consultants Inc. (CGI), as service provider, hosts and maintains the CSA Systems. CGI forwards the gross system fees collected from users of the CSA Systems to the DPA as they are received and invoices the DPA for services provided by CGI in relation to the CSA Systems.

The DPA administers payments to CGI for services provided as they become due from the surplus funds. A CSA Systems Governance Committee (SGC), consisting of members of the four PAs, was established through an agreement signed on April 2, 2013. This agreement also created a governance framework for management and oversight of the CSA Systems, including that of CGI. It outlines how user fees will be collected and deployed, and addresses allocation and payment of liabilities that may arise.

Use of the surplus funds within the terms of the various agreements requires the approval of members of the SGC. Majority approval is required for all permissible uses of the surplus funds as outlined within the various agreements, with the exception of the following, which all require unanimous approval of the PAs:

- any financial commitments in excess of the lesser of (i) $5.0 million and (ii) 15% of the accumulated surplus at such date,
- significant changes to the design of the systems, and
- any changes to system fees.

In the case of NRD, IIROC approval is required for any use of the surplus funds that deviates from the contractually agreed uses for funds accumulated prior to October 12, 2013.

The CSA is redeveloping the CSA Systems in a multi-year phased approach. Funding for the redevelopment is coming from the accumulated surplus funds.

The results of the Net assets held for CSA Systems operations and redevelopment are presented below.

| Financial position | As at March 31, 2017 | As at March 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | $ 19,886,194 | $ 96,490,056 |
| Investments | 115,000,000 | 40,000,000 |
| Trade and other receivables | 4,494,379 | 2,550,211 |
| Prepayments | 1,953,035 | 696,490 |
| **Total current** | **$ 141,333,608** | **$ 139,736,757** |
| Intangible asset | 14,636,653 | 1,862,781 |
| **Total assets** | **$ 155,970,261** | **$ 141,599,538** |
| **LIABILITIES** | | |
| **Current** | | |
| Trade and other payables | $ 4,186,601 | $ 1,616,813 |
| Deferred revenues | 51,052 | 126,757 |
| **Total current** | **$ 4,237,653** | **$ 1,743,570** |
| **Total liabilities** | **$ 4,237,653** | **$ 1,743,570** |
| **SURPLUS** | | |
| Opening surplus | $ 139,855,968 | $ 128,793,173 |
| Excess of revenue over expenses | 11,876,640 | 11,062,795 |
| **Closing surplus** | **$ 151,732,608** | **$ 139,855,968** |
| **Total liabilities and surplus** | **$ 155,970,261** | **$ 141,599,538** |

| Results of operations | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| **REVENUE** | | |
| NRD system fees | $ 14,293,387 | $ 14,122,155 |
| SEDAR system fees | 10,697,122 | 10,799,086 |
| Data distribution services fees | 705,230 | 615,230 |
| Interest income | 1,709,469 | 1,693,848 |
| **Total revenues** | **$ 27,405,208** | **$ 27,230,319** |
| **EXPENSES** | | |
| Salaries and benefits | $ 2,564,850 | $ 2,893,628 |
| Professional services | 11,690,939 | 12,240,191 |
| Amortization | 482,850 | 411,712 |
| Other | 789,929 | 621,993 |
| **Total expenses** | **$ 15,528,568** | **$ 16,167,524** |
| **Excess of revenues over expenses** | **$ 11,876,640** | **$ 11,062,795** |

## Notes to the Financial Statements

| Cash flows | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Excess of revenues over expenditures | $ 11,876,640 | $ 11,062,795 |
| Adjusted for: | | |
| Interest income received | 263,702 | 1,901,855 |
| Interest income | (1,709,469) | (1,693,848) |
| Impairment loss | — | 210,000 |
| Amortization | 482,850 | 411,712 |
| | 10,913,723 | 11,892,514 |
| Changes in non-cash working capital: | | |
| Trade and other receivables | (498,401) | 245,303 |
| Prepayments | (1,256,545) | (23,581) |
| Trade and other payables | (191,947) | 3,812 |
| Deferred revenues | (75,705) | 65,817 |
| | (2,022,598) | 291,351 |
| **Net cash flows from operating activities** | **$ 8,891,125** | **$ 12,183,865** |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | |
| Purchase of intangible asset | (10,494,987) | (1,084,317) |
| Purchase of investments | (75,000,000) | (40,000,000) |
| Maturity of investments | — | 90,000,000 |
| **Net cash flows used in investing activities** | **$ (85,494,987)** | **$ 48,915,683** |
| **Net (decrease)/increase in cash position** | **$ (76,603,862)** | **$ 61,099,548** |
| Cash position, beginning of period | **96,490,056** | **35,390,508** |
| **Cash position, end of period** | **$ 19,886,194** | **$ 96,490,056** |
| **Supplemental cash flow information** | | |
| Intangible assets funded by Trade and other payables | **$ 2,761,735** | **$ —** |

For more information on the Net assets held for CSA Systems operations and redevelopment, see Note 2(d) and Note 17.

## 8. Reserve fund assets

As part of the approval of its self-funded status, the OSC was allowed to establish a $20.0 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 the principal and appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the OSC. The March 31, 2017 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

| **2017** | **Office furniture** | **Office equipment** | **Computer hardware and related applications** | **Networks and servers** | **Leasehold improvements** | **Total** |
|---|---|---|---|---|---|---|
| **GROSS CARRYING AMOUNT** | | | | | | |
| Balance as at April 1, 2016 | $ 4,791,873 | $ 684,970 | $ 21,417,379 | $ 3,223,289 | $ 10,353,145 | $ 40,470,656 |
| Additions | 44,506 | 25,545 | 2,530,971 | 103,665 | 38,061 | 2,742,748 |
| Disposals | — | — | (13,255) | — | — | (13,255) |
| Balance at March 31, 2017 | $ 4,836,379 | $ 710,515 | $ 23,935,095 | $ 3,326,954 | $ 10,391,206 | $ 43,200,149 |
| **DEPRECIATION** | | | | | | |
| Balance as at April 1, 2016 | $ (4,469,991) | $ (503,839) | $ (18,217,067) | $ (1,186,184) | $ (3,220,635) | $ (27,597,716) |
| Depreciation for the year | (118,619) | (25,123) | (1,024,732) | (680,003) | (1,263,671) | (3,112,148) |
| Disposals | — | — | 12,390 | — | — | 12,390 |
| **Balance at March 31, 2017** | **$ (4,588,610)** | **$ (528,962)** | **$ (19,229,409)** | **$ (1,866,187)** | **$ (4,484,306)** | **$ (30,697,474)** |
| **Carrying amount at March 31, 2017** | **$ 247,769** | **$ 181,553** | **$ 4,705,686** | **$ 1,460,767** | **$ 5,906,900** | **$ 12,502,675** |
| **2016** | | | | | | |
| **GROSS CARRYING AMOUNT** | | | | | | |
| Balance as at April 1, 2015 | $ 4,720,355 | $ 668,400 | $ 19,721,836 | $ 3,027,295 | $ 9,344,762 | $ 37,482,648 |
| Additions | 76,966 | 16,570 | 1,759,776 | 195,994 | 1,008,383 | 3,057,689 |
| Disposals | (5,448) | — | (64,233) | — | — | (69,681) |
| Balance at March 31, 2016 | $ 4,791,873 | $ 684,970 | $ 21,417,379 | $ 3,223,289 | $ 10,353,145 | $ 40,470,656 |
| **DEPRECIATION** | | | | | | |
| Balance as at April 1, 2015 | $ (4,271,240) | $ (479,857) | $ (17,508,940) | $ (547,802) | $ (2,090,075) | $ (24,897,914) |
| Depreciation for the year | (203,912) | (23,982) | (764,446) | (638,382) | (1,130,560) | (2,761,282) |
| Disposals | 5,161 | — | 56,319 | — | — | 61,480 |
| **Balance at March 31, 2016** | **$ (4,469,991)** | **$ (503,839)** | **$ (18,217,067)** | **$ (1,186,184)** | **$ (3,220,635)** | **$ (27,597,716)** |
| **Carrying amount at March 31, 2016** | **$ 321,882** | **$ 181,131** | **$ 3,200,312** | **$ 2,037,105** | **$ 7,132,510** | **$ 12,872,940** |

## Notes to the Financial Statements

### 10. Trade and other payables

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Trade payables | $ 1,148,122 | $ 1,320,361 |
| Payroll accruals | 12,017,104 | 10,985,698 |
| Other accrued expenses | 3,552,584 | 2,311,281 |
| | **$ 16,717,810** | **$ 14,617,340** |

### 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, 2017 | March 31, 2016 |
|---|---|---|
| Less than one year | $ 8,205,840 | $ 8,362,862 |
| Between one and five years | 34,513,391 | 3,518,456 |
| More than five years | 49,859,515 | — |
| | **$ 92,578,746** | **$ 11,881,318** |

Lease expense recognized during 2017 was $7,826,890 (2016 – $7,491,391). This amount consists of minimum lease payments. A portion of the OSC's office space is subleased to the CSA IT Systems Project Office and the Government of Canada on a full cost recovery basis. During the year, the OSC recorded sublease payments totaling $794,465 from these two organizations.

The current lease on OSC premises began August 30, 2012 for a term of five years, expiring on August 31, 2017. The OSC has entered into a new lease that begins September 1, 2017 for a term of ten years, expiring on August 31, 2027. The OSC has two consecutive options to extend the term beyond August 31, 2027, each for a period of five years. The lease was approved by the Minister of Finance under the Financial Administration Act section 28, which required review of contingent liabilities inherent in the lease.

### 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, 2017 was $5,078,084 (2016 – $4,851,811), which is included under Salaries and benefits in the Statement of comprehensive income. The expected contributions for the plan for fiscal 2018 are $5,640,450.

Information on the level of participation of the OSC in the OPSPP compared with other participating entities is not available.

#### (b) Supplemental pension plans

The OSC also has unfunded supplemental defined benefit pension plans for its 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.

The OSC is responsible for governance of these plans. The OSC Board's Audit and Finance Committee and Human Resources and Compensation Committee 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 Pension liabilities are 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 plans expose 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 that 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.
- 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 12 years (2016 – 12 years).

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Defined benefit obligation, beginning of year | $ 3,608,042 | $ 3,560,802 |
| Current service cost | 230,996 | 115,100 |
| Interest cost | 129,189 | 117,627 |
| Benefit payments | (238,465) | (202,458) |
| Plan amendment | — | — |
| Actuarial loss on obligation | 110,166 | 16,971 |
| Defined benefit obligation, end of year | **$ 3,839,928** | **$ 3,608,042** |

### Actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation were as follows:

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Discount rate(s) | 3.55% | 3.70% |
| Inflation | 2.25% | 2.25% |
| Expected rate(s) of salary increase | 0% | 0% |
| CPP YMPE increase | 2.75% | 2.75% |
| Increase in CRA limit | $ 2,914.4 | $ 2,890.0 |

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.

## Notes to the Financial Statements

### 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, 2017 | March 31, 2016 |
|---|---|---|
| Discount rate increased by 0.5% (obligation will decrease by) | 5.5% | 5.3% |
| Discount rate decreased by 0.5% (obligation will increase by) | 6.1% | 5.8% |
| Life expectancy increased by 1 year (obligation will increase by) | 2.9% | 2.7% |
| Life expectancy decreased by 1 year (obligation will decrease by) | 3.0% | 2.8% |
| Inflation rate increased by 0.5% (obligation will decrease by) | 2.0% | 2.6% |
| Inflation rate decreased by 0.5% (obligation will increase by) | 2.5% | 3.2% |

The OSC's pension expense relating to the supplemental pension plans for the year ended March 31, 2017 was $360,185 (2016 – $232,727). The OSC expects to incur $236,700 in benefit payments relating to the supplemental pension plan during the next fiscal year.

## 13. Capital management

The OSC has established a $20.0 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 maintains an investment policy where Reserve fund assets 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 $52.0 million credit facility with a Schedule 1 financial institution to address any short-term cash deficiencies. The credit facility was renewed on July 1, 2016 and will expire on June 30, 2018.

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 not filing required documents and/or paying their participation and activity fees on time.

Any general operating surpluses generated are normally returned to market participants through lower fees than otherwise required to recover costs or direct refunds.

The Commission revised its participation fees and activity fees through fee rule amendments that became effective April 6, 2015. While participation fee rates remained the same, some activity fee rates were adjusted at the beginning of fiscal 2016.

Fee rates will be reviewed in fiscal 2018 and the existing surplus will be taken into account in determining new rates. Other factors to be considered when reviewing the level of surplus and fee rates are the projected level of expenses, any projected capital expenses and the level of cash resources required to provide an adequate cash safety margin.

Fees received are as follows:

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Participation fees | $ 99,726,141 | $ 99,714,224 |
| Activity fees | 15,470,992 | 13,840,855 |
| Late filing fees | 4,319,208 | 3,083,179 |
| | **$ 119,516,341** | **$ 116,638,258** |

## 15. Salaries and benefits

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Salaries | $ 67,727,969 | $ 65,735,420 |
| Benefits | 8,113,532 | 7,848,643 |
| Pension expense | 5,438,269 | 5,084,538 |
| Severance/termination payments | 584,562 | 505,527 |
| | **$ 81,864,332** | **$ 79,174,128** |

## 16. Administrative

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Commission expense | $ 1,887,267 | $ 1,755,599 |
| Communications & publications | 1,865,559 | 1,511,122 |
| Maintenance & support | 3,069,562 | 2,418,854 |
| Supplies | 799,956 | 730,270 |
| Other expenses | 786,178 | 642,480 |
| Training | 676,466 | 679,031 |
| | **$ 9,084,988** | **$ 7,737,356** |

## 17. Contingent liabilities and contractual commitments

**(a)** The OSC has committed to paying in full any liability with respect to CSA Systems operations 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 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 2017, there were no such claims or expenses. As described in Note 7, the OSC, in its capacity as DPA, is holding funds in segregated bank and investment accounts that may be used to settle claims and expenses relating to the operation and redevelopment of the CSA Systems.

**(b)** Occasionally, the OSC is involved in legal actions arising from the ordinary course of business. This year, no new legal actions were commenced against the OSC and there are no other outstanding actions involving the OSC from prior years.

## Notes to the Financial Statements

### 18. Related party transactions

#### (a) Net assets held for CSA Systems operations and redevelopment

In the course of normal operations, the OSC entered into transactions with the Net assets held for CSA Systems operations and redevelopment. During the year, total related party charges incurred and to be reimbursed were $3.7 million ($3.2 million in 2016). At March 31, 2017, $1.1 million was still owed to the OSC ($1.0 million in 2016). For more information, see Note 7.

#### (b) The Province of Ontario

In the course of normal operations, the OSC entered into the following transactions with the Province of Ontario:

(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.

(iii) Certain payments to harmed investors from the Funds held pursuant to designated settlements and orders are made through the Civil Remedies for Illicit Activities Office (CRIA). Payments are made to CRIA from the OSC pursuant to forfeiture orders obtained by CRIA under the *Civil Remedies Act*. CRIA is an office of the Ministry of the Attorney General of Ontario.

#### (c) Compensation to key management personnel

The OSC's key management personnel are the members of the Board of Directors, Chair, Vice-Chairs and Executive Director.

The remuneration of key management personnel includes the following expenses:

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Short-term employee benefits | $ 3,984,123 | $ 3,357,387 |
| Post-employment benefits | 364,594 | 294,136 |
| **Total compensation** | **$ 4,348,717** | **$ 3,651,523** |

## 19. Recoveries of investor education costs

During the year, as described in Note 3(g), the OSC recorded recoveries of investor education costs from the Funds held for designated settlements and orders as follows:

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| Payroll costs | $ 672,628 | $ 527,443 |
| OSC in the Community costs | 16,134 | 92,735 |
| Media Campaign costs (Fraud Prevention Month) | 217,131 | 73,901 |
| Website and other IT costs | 154,063 | 115,492 |
| Consulting costs | 410,938 | 388,700 |
| **Total** | **$ 1,470,894** | **$ 1,198,271** |

The amount recorded in the year is $1,470,894 (2016 – $1,198,271), of which $687,769 (2016 – $629,824) is owing to the OSC at March 31, 2017. The amount reimbursed to the OSC in the year from the Designated settlements fund was $1,412,949 relating to costs incurred in the 2016 and 2017 fiscal years.

## 20. Accounting pronouncements

### Accounting standards adopted in the current year

The following IFRS standards, interpretations and amendments have been issued and are effective for the year ended March 31, 2017.

#### IAS 1, *Presentation of financial statements*

IAS 1, *Presentation of Financial Statements*, was amended in December 2014 to clarify, among other things, guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements, and the disclosure of accounting policies. The amendment was adopted on April 1, 2016, without significant impact on the OSC's Statement of financial position or Statement of comprehensive income.

### 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, 2017, have not been applied in preparing these financial statements. These pronouncements are currently under consideration or have been determined not to have a material impact on the financial statements of the OSC.

#### IFRS 9, *Financial Instruments*

In July 2014, the IASB issued a finalized version of IFRS 9, *Financial Instruments*. The completed version of IFRS 9 includes revised guidance on the classification and measurement of financial assets and carries forward the guidance on recognition and derecognition of financial instruments from IAS 39, *Financial Instruments: Recognition and Measurement*. This standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 is not expected to have a material impact on the OSC financial statements.

## Notes to the Financial Statements

### IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, that sets out the principles for when revenue should be recognized and how it should be measured, together with related disclosures. This standard replaces all existing IFRS revenue requirements and applies to revenue arising from contracts with customers.

This standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively, subject to certain practical expedients, using either a full retrospective approach or a modified retrospective approach. The new standard is applicable to the OSC's financial statements for the year ending March 31, 2019, with an initial application date of April 1, 2018.

Over the next year, the OSC will determine the impact of the standard, which is currently not known or reasonably estimable. During this time, the OSC will select a transition approach and prepare qualitative and quantitative information regarding the impact that initial application of the standard is expected to have on the OSC's financial statements, if any. The OSC will disclose the impact of the standard in the next annual financial statements.

To ensure effective implementation of the standard, an internal cross-functional team, reporting to the Audit and Finance Committee, is currently engaged in implementing a comprehensive transition plan. This plan includes, among other things, a detailed analysis of our two most material sources of revenue: participation fees and activity fees.

### IFRS 16, *Leases*

In January 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The standard replaces IAS 17, *Leases*, and all associated interpretations.

The standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. The standard is applicable to the OSC's financial statements for the year ending March 31, 2020, with an initial application date of April 1, 2019. While early adoption is permitted, the OSC will not adopt the standard early.

Under the standard, all leases will be on the balance sheet of lessees, except short-term leases and leases of low value items.

As the OSC has lease arrangements, there may be an increase to both assets and liabilities upon adoption of the standard, and potentially changes to the timing of recognition and classification of expenses associated with the lease arrangements. The OSC is analyzing the standard to determine its impact on the OSC's financial statements.

To ensure effective implementation of the standard, an internal cross-functional team, reporting to the Audit and Finance Committee, will be engaged in implementing a comprehensive transition plan.

# 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.

Lisa LaVecchia
President and CEO
June 14, 2017

Ronald Ting
Treasurer
June 14, 2017

Tel: 905 270-7700
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Toll-free: 866 248 6660
www.bdo.ca

BDO Canada **LLP**
1 City Centre Drive, Suite 1700
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, 2017, and the statements of operations, 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 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, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

BDO CANADA LLP

Chartered Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
June 14, 2017

## ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

### Statement of Financial Position

| | **March 31 2017 ($ 000)** | March 31 2016 ($ 000) |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | **4,997** | 6,811 |
| Accounts receivable | **635** | 651 |
| Due from the Province of Ontario | **-** | 2,084 |
| Prepaid expenses | **124** | 88 |
| | **5,756** | 9,634 |
| **Capital assets** (Note 3) | **6,326** | 6,861 |
| | **12,082** | 16,495 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **3,563** | 4,440 |
| Deferred revenue (Note 4) | **86** | 157 |
| | **3,649** | 4,597 |
| **Obligation for retirement benefits** (Note 2k) | **1,722** | 1,783 |
| **Deferred capital contributions** (Note 5) | **449** | 589 |
| | **2,171** | 2,372 |
| | **5,820** | 6,969 |
| **Net assets** | | |
| Unrestricted fund (deficiency) | **(338)** | 757 |
| Special projects fund (Note 2h) | **723** | 2,497 |
| Investment in capital assets (Note 2g) | **5,877** | 6,272 |
| | **6,262** | 9,526 |
| | **12,082** | 16,495 |

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 | 2017 ($ 000) | 2016 ($ 000) |
|---|---|---|
| **Revenues** | | |
| Province of Ontario Grant (Note 6) | **37,097** | 51,866 |
| Advertising sales | **1,458** | 1,672 |
| Travel Information Centres - sales and rentals | **1,098** | 1,040 |
| Trade promotions | **183** | 188 |
| Interest income | **51** | 65 |
| Amortization of deferred capital contribution | **201** | 205 |
| | **40,088** | 55,036 |
| **Expenses** | | |
| Advertising and marketing | **22,413** | 33,842 |
| Administration (Note 7) | **7,222** | 7,219 |
| Travel Information Centres (Note 8) | **6,005** | 5,901 |
| Tourism Consumer Information System | **3,734** | 3,513 |
| Amortization of capital assets | **1,942** | 1,518 |
| Research | **818** | 783 |
| Partnerships and sales | **608** | 613 |
| Board and committee expenses (Note 9) | **44** | 43 |
| Events marketing program | **-** | 1,942 |
| | **42,786** | 55,374 |
| **Deficiency of revenues over expenses** | **(2,698)** | (338) |

The accompanying notes are an integral part of these financial statements

## ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

### Statement of Changes in Net Assets

| | Unrestricted Fund (Deficiency) ($ 000) | Special Projects Fund ($ 000) | Investment in Capital Assets ($ 000) | 2017 Total ($ 000) | 2016 Total ($ 000) |
|---|---|---|---|---|---|
| **Net assets**, beginning of year | **757** | **2,497** | **6,272** | **9,526** | 10,811 |
| Excess (deficiency) of revenues over expenditures for the year | **(957)** | **-** | **(1,741)** | **(2,698)** | (338) |
| Interest income | **(23)** | **23** | **-** | **-** | - |
| Reserve for TCIS redevelopment project | **(115)** | **115** | **-** | **-** | - |
| TCIS redevelopment expenses (Note 2h) | **-** | **(566)** | **-** | **(566)** | (947) |
| Purchase of capital assets, net | **-** | **(1,346)** | **1,346** | **-** | - |
| **Net assets (deficiency),** end of year | **(338)** | **723** | **5,877** | **6,262** | 9,526 |

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 | 2017 ($ 000) | 2016 ($ 000) |
|---|---|---|
| **OPERATING** | | |
| Deficiency of revenues over expenses | **(2,698)** | (338) |
| Add (less) non-cash items: | | |
| Amortization of deferred capital contributions | **(201)** | (205) |
| Amortization of capital assets | **1,942** | 1,518 |
| Obligation for retirement benefits | **(61)** | 192 |
| | **(1,018)** | 1,167 |
| TCIS Redevelopment Expenses – Special Project Fund | **(566)** | (947) |
| Change in non-cash working capital | **1,116** | (2,402) |
| | **(468)** | (2,182) |
| **CAPITAL** | | |
| Capital asset additions | **(1,407)** | (3,237) |
| Deferred capital contributions | **61** | - |
| | **(1,346)** | (3,237) |
| **Decrease in cash during the year** | **(1,814)** | (5,419) |
| **Cash**, beginning of year | **6,811** | 12,230 |
| **Cash**, end of year | **4,997** | 6,811 |

The accompanying notes are an integral part of these financial statements

## ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

### Notes to Financial Statements

**March 31, 2017**

---

### 1. NATURE OF CORPORATION

The Ontario Tourism Marketing Partnership Corporation (the "Corporation") 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 including the 4200 series of standards contained in the Chartered Professional Accountants (CPA) Canada 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 are 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, 2017**

**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) Inventory**

Inventory held from time to time 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.

**(e) 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.

**(f) Deferred Capital Contributions**

Deferred capital contributions represent amounts received from the 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.

**(g) 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 and the Special Projects Fund on an annual basis.

**(h) Special Projects Fund**

The Board approved the creation of an internally restricted Special Projects Fund to provide for longer term special projects. At March 31, 2017, $723,000 (2016 - $2,497,000) is being held for the Tourism Consumer Information System redevelopment project. Work on this project commenced in the summer of 2013 (Note 10a). During the year, the Board approved $566,000 (2016 - $947,000) of redevelopment costs to be charged directly to the fund. Interest earned on these funds is being added to the fund.

## ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

### Notes to Financial Statements

**March 31, 2017**

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(i) Use of Estimates**

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 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.

**(j) 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 its 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.

**(k) Retirement 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. During the year, the obligation was reduced by $61,000 (2016 – increased by $192,000) based on assumptions derived from the March 31, 2016 actuarial valuation completed by the Province of Ontario. The liability is calculated using management’s best estimate of future inflation rates, employee salary levels and other underlying assumptions. The liability calculated using the projected benefit method and the following assumptions approximates $1,722,000 (2016 - $1,783,000). Due to the curtailment of the obligation, there was no assumption for wage and salary escalation (2016 – 1.86%). The discount factor used was 0.76 (2016 – 0.71) and the estimated average years to retirement was 15.07 years (2016 – 16.72 years).

**(l) Foreign Currency Translation**

Foreign currency accounts are translated into Canadian dollars as follows;

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

## ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

### Notes to Financial Statements

**March 31, 2017**

**3. CAPITAL ASSETS**

| | 2017 ($ 000) | | 2016 ($ 000) | |
|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | Cost | Accumulated Amortization |
| Furniture | **396** | **396** | 396 | 389 |
| Leasehold improvements | **2,495** | **2,050** | 2,434 | 1,871 |
| Tourism Consumer Information System | **15,261** | **9,380** | 13,915 | 7,624 |
| | **18,152** | **11,826** | 16,745 | 9,884 |
| **Cost less accumulated amortization** | | **6,326** | | 6,861 |

**4. DEFERRED REVENUE**

| | 2017 ($ 000) | 2016 ($ 000) |
|---|---|---|
| Ministry of Tourism, Culture and Sport | | |
| OTICS – Capital assets | **67** | 98 |
| Fun Pass | **-** | 30 |
| Advertising programs | **19** | 29 |
| | **86** | 157 |

## ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

### Notes to Financial Statements

**March 31, 2017**

**5. DEFERRED CAPITAL CONTRIBUTIONS**

Deferred capital contributions represent contributions received relating to acquisition of capital assets:

| | **2017 ($ 000)** | | 2016 ($ 000) | |
|---|---|---|---|---|
| | **Contributions** | **Accumulated Amortization** | Contributions | Accumulated Amortization |
| Contributions received | **1,749** | **1,300** | 1,688 | 1,099 |
| **Contributions less accumulated amortization** | | **449** | | 589 |

**6. REVENUE: PROVINCE OF ONTARIO**

The Corporation received funding that is recognized as revenue from the Province as follows:

| | **2017 ($ 000)** | 2016 ($ 000) |
|---|---|---|
| Core funding | **36,968** | 39,868 |
| PanAm/Parapan American Games-Celebration Zone | **-** | 7,786 |
| Media Buys | **-** | 4,002 |
| Ontario Travel Centres Capital | **-** | 41 |
| Fun Pass | **-** | 40 |
| Summer Experience Program | **129** | 129 |
| | **37,097** | 51,866 |

## ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

### Notes to Financial Statements

**March 31, 2017**

### 7. 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:

| | **2017 ($ 000)** | 2016 ($ 000) |
|---|---|---|
| Salaries and benefits | **6,099** | 6,114 |
| Services | **972** | 932 |
| Transportation and communications | **128** | 155 |
| Supplies and equipment | **23** | 18 |
| | **7,222** | 7,219 |

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 $423,000 (2016 – $435,000).

Costs of post-retirement non-pension employee benefits are paid by the Management Board Secretariat and are not included in administrative expenses.

### 8. TRAVEL INFORMATION CENTRES

The expenditures for the Travel Information Centres are as follows:

| | **2017 ($ 000)** | 2016 ($ 000) |
|---|---|---|
| Salaries and benefits | **3,235** | 3,182 |
| Accommodation | **1,402** | 1,382 |
| Merchandise for sale | **687** | 600 |
| Services | **474** | 530 |
| Transportation and communications | **131** | 143 |
| Supplies and equipment | **76** | 64 |
| | **6,005** | 5,901 |

Included in salaries and benefits are contributions to the PSPF and OPSEU pension funds for the year of $180,000 (2016 - $184,000).

## ONTARIO TOURISM MARKETING PARTNERSHIP CORPORATION

### Notes to Financial Statements

**March 31, 2017**

**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.

**10. TOURISM CONSUMER INFORMATION SYSTEM REDEVELOPMENT AND COMMITMENTS**

a) After a competitive procurement process in 2013, 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. Total committed amount to Hewlett Packard as at March 31, 2017 is $27,547,000. During the year $5,379,000 was paid out for a total payment of $23,720,000 against the contract. The estimated payment for next year is:

| | ($ 000) |
|---|---|
| 2018 | 3,827 |

b) During the year, total costs incurred for the Tourism Consumer Information System amounted to $5,646,000 (2016 - $7,686,000) of which $566,000 (2016 - $947,000) was charged directly to the Special Projects Fund (Note 2h) and $1,346,000 (2016 - $3,237,000) was capitalized to the Investment in Capital Assets. The remaining $3,734,000 (2016 - $3,513,000) is recorded in the statement of operations.

c) The Corporation has various operating leases for its premises and advertising. The operating lease for the head office expires in 2019. The minimum annual payments for the next two years are as follows:

| | ($ 000) |
|---|---|
| 2018 | 1,042 |
| 2019 | 422 |
| | 1,464 |

# 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.

| | |
|---|---|
| Dan Wilson | Ina Gutium |
| Chief of Staff | Vice-President, |
| | Talent and Corporate Services |

KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

# 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, 2017, 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, 2017, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 15, 2017
Vaughan, Canada

# ONTARIO TRILLIUM FOUNDATION

Statement of Financial Position

March 31, 2017, with comparative information for 2016

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Cash | $ 1,220,518 | $ 1,544,270 |
| Accounts receivable and other | 485,934 | 458,107 |
| Investments (note 2) | 158,271,579 | 155,213,410 |
| Capital assets (note 3) | 997,233 | 1,228,970 |
| | $ 160,975,264 | $ 158,444,757 |
| **Liabilities and Net Assets** | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | $ 2,574,194 | $ 2,398,801 |
| Deferred contributions (note 4(a)) | 12,963,028 | 10,884,514 |
| Grants payable (note 4(b)) | 142,866,000 | 142,589,400 |
| | 158,403,222 | 155,872,715 |
| Net assets: | | |
| Invested in capital assets | 997,233 | 1,228,970 |
| Unrestricted | 1,574,809 | 1,343,072 |
| | 2,572,042 | 2,572,042 |
| Commitments (note 7) | | |
| | $ 160,975,264 | $ 158,444,757 |

On behalf of the Board:

Janet Yale, Chair

Timothy Jackson, Treasurer

# ONTARIO TRILLIUM FOUNDATION

Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

| | 2017 | 2016 |
|---|---|---|
| Revenue: | | |
| Ontario government funding (note 4(a)) | $ 134,913,329 | $ 123,351,385 |
| Grants rescinded or recovered (note 4(a)) | 3,252,397 | 3,937,788 |
| Investment income (note 4(a)) | 1,692,059 | 1,828,535 |
| | 139,857,785 | 129,117,708 |
| Expenses: | | |
| Program activities: | | |
| Grants pledged (note 4(a) and (b)) | 112,779,900 | 109,569,000 |
| Grantmaking expenses (note 4(a)) | 15,455,980 | 14,087,615 |
| Agent grants paid (note 4(a)) | 7,712,200 | 2,028,500 |
| Services to the community (notes 4(a) and 6) | 1,355,106 | 887,022 |
| | 137,303,186 | 126,572,137 |
| Support services (notes 4(a) and 5) | 2,131,187 | 2,056,137 |
| Amortization of capital assets | 423,412 | 489,434 |
| | 139,857,785 | 129,117,708 |
| Excess of revenue over expenses | $ – | $ – |

See accompanying notes to financial statements.

# ONTARIO TRILLIUM FOUNDATION

Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016

| | Invested in capital assets | Unrestricted | 2017 Total | 2016 Total |
|---|---|---|---|---|
| Net assets, beginning of year | $ 1,228,970 | $ 1,343,072 | $ 2,572,042 | $ 2,572,042 |
| Excess (deficiency) of revenue over expenses | (423,412) | 423,412 | – | – |
| Purchase of capital assets | 191,675 | (191,675) | – | – |
| Net assets, end of year | $ 997,233 | $ 1,574,809 | $ 2,572,042 | $ 2,572,042 |

See accompanying notes to financial statements.

# ONTARIO TRILLIUM FOUNDATION

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

| | 2017 | 2016 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Amortization of capital assets which does not involve cash | $ 423,412 | $ 489,434 |
| Change in non-cash operating items | 2,502,680 | 21,104,199 |
| | 2,926,092 | 21,593,633 |
| Capital activities: | | |
| Net purchase of capital assets | (191,675) | (181,337) |
| Investing activities: | | |
| Purchase of investments | (1,000,882,965) | (959,088,928) |
| Disposal of investments | 997,824,796 | 938,182,455 |
| | (3,058,169) | (20,906,473) |
| Increase (decrease) in cash | (323,752) | 505,823 |
| Cash, beginning of year | 1,544,270 | 1,038,447 |
| Cash, end of year | $ 1,220,518 | $ 1,544,270 |

See accompanying notes to financial statements.

# ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements

Year ended March 31, 2017

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, 2017

**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 awarded by the Foundation are recorded as grants pledged expenses in the year that the Foundation approves the grant.

Grants awarded by third party organizations for which the Foundation acts as an administrative agent are recorded as agent grant payments when payments are issued.

(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 | Term of lease |

# ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

## 1. Significant accounting policies (continued):

(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.

## 2. Investments:

| | 2017 | 2016 |
|---|---|---|
| Short-term investments | $ 69,640,678 | $ 66,707,683 |
| Bonds | 15,362,030 | 15,422,366 |
| Laddered bond portfolio | 73,268,871 | 73,083,361 |
| | $ 158,271,579 | $ 155,213,410 |

All investments, excluding the laddered bond portfolio, are in fixed income securities and mature within the next six months (2016 - three months). These investments bear interest from 0.53% to 1.12% (2016 - 0.63% to 0.98%).

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 1.90% to 4.45% (2016 - 1.90% to 4.45%).

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:

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Furniture and fixtures | $ 1,031,790 | $ 922,990 | $ 108,800 | $ 169,266 |
| Computer hardware | 1,105,241 | 903,959 | 201,282 | 150,304 |
| Computer software | 1,178,499 | 1,101,944 | 76,555 | 168,277 |
| Leasehold improvements | 1,413,376 | 802,780 | 610,596 | 741,123 |
| | $ 4,728,906 | $ 3,731,673 | $ 997,233 | $ 1,228,970 |

# ONTARIO TRILLIUM FOUNDATION
Notes to Financial Statements (continued)

Year ended March 31, 2017

## 4. Deferred contributions and grants payable:

(a) Deferred contributions represent funding received from Ministries that has not yet been pledged as grants, paid to Local Poverty Reduction Fund ("LPRF") grantees or spent on operations. These funds are restricted until grants are approved by the Board of Directors and pledged to third parties, LPRF grant conditions are met and payments are made or until operating expenditures are made. OTF has controls in place to ensure that the restrictions on grant pledges are met prior to utilization of these funds.

| | General operations | Community Capital Fund | Youth Opportunities Fund | Local Poverty Reduction Fund | Ontario150 Community Capital Fund | 2017 Total | 2016 Total |
|---|---|---|---|---|---|---|---|
| Deferred contributions, beginning of year | $ 6,909,595 | $ 2,907,325 | $ 251,536 | $ 816,058 | $ – | $ 10,884,514 | $ 7,408,799 |
| Funding received: | | | | | | | |
| Ministry of Tourism, Culture and Sport | 90,000,000 | – | – | – | 25,000,000 | 115,000,000 | 115,000,000 |
| Ministry of Children and Youth Services | – | – | 13,491,843 | – | – | 13,491,843 | 8,710,000 |
| Treasury Board Secretariat | – | – | – | 8,500,000 | – | 8,500,000 | 3,117,100 |
| | 90,000,000 | – | 13,491,843 | 8,500,000 | 25,000,000 | 136,991,843 | 126,827,100 |
| Investment income recorded as revenue | 1,573,571 | – | 88,418 | 30,070 | – | 1,692,059 | 1,828,535 |
| Grants pledged | (77,908,600) | – | (12,000,900) | – | (22,870,400) | (112,779,900) | (109,569,000) |
| Agent grants paid | – | – | – | (7,712,200) | – | (7,712,200) | (2,028,500) |
| Grantmaking expenses | (11,531,249) | (33,188) | (1,740,972) | (943,496) | (1,207,075) | (15,455,980) | (14,087,615) |
| Support services | (2,131,187) | – | – | – | – | (2,131,187) | (2,056,137) |
| Amortization | (406,438) | – | (12,426) | (4,548) | – | (423,412) | (489,434) |
| Services to the community | (1,355,106) | – | – | – | – | (1,355,106) | (887,022) |
| Grants rescinded or recovered | 2,575,594 | 172,492 | 4,311 | – | 500,000 | 3,252,397 | 3,937,788 |
| Amounts recognized as Ontario government funding | (89,183,415) | 139,304 | (13,661,569) | (8,630,174) | (23,577,475) | (134,913,329) | (123,351,385) |
| Change during the year | 816,585 | 139,304 | (169,726) | (130,174) | 1,422,525 | 2,078,514 | 3,475,715 |
| Deferred contributions, end of year | $ 7,726,180 | $ 3,046,629 | $ 81,810 | $ 685,884 | $ 1,422,525 | $ 12,963,028 | $ 10,884,514 |

# ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

**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. On October 8, 2015, the Foundation signed an amending agreement to expand the YOF program throughout the province. On August 30, 2016 the Foundation signed a service contract with MCYS to deliver additional YOF grants, focused on civic engagement, supported through the time-limited Ontario150 initiative.

Local Poverty Reduction Fund:

On November 19, 2015, the Foundation signed an agreement with Treasury Board Secretariat ("TBS") and MTCS to act as an administrative agent for the Local Poverty Reduction Fund, a granting program to provide funding to support innovative, community-driven projects that measurably improve the lives of those most affected by poverty. The transactions are deferred until such time that grant payments are made or operating expenses are incurred. TBS is responsible for application review and approval, and the Foundation supports applicants through the application process and manages the grants once they are approved.

The total funding to be received from TBS is $50,000,000 over six years. During 2017, $8,500,000 (2016 - $3,117,100) was received, of which $7,712,200 (2016 - $2,028,500) is included in agent grants paid.

# ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

**4. Deferred contributions and grants payable (continued):**

Ontario150 Community Capital Program:

On December 13, 2016, the Foundation signed an agreement with MTCS to administer the Ontario150 Community Capital Program, a one-time funding program launched as part of the Province of Ontario's 150th anniversary. The purpose of the program is to strengthen communities by supporting the repair, renovation or retrofitting of existing infrastructure to better address the diverse needs of Ontario communities while fostering economic growth.

(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:

| | 2017 | 2016 |
|---|---|---|
| Grants pledged | $ 112,779,900 | $ 109,569,000 |
| Grants rescinded | (2,340,100) | (2,611,100) |
| Grants paid | (110,163,200) | (89,704,500) |
| | 276,600 | 17,253,400 |
| Grants payable, beginning of year | 142,589,400 | 125,336,000 |
| Grants payable, end of year | $ 142,866,000 | $ 142,589,400 |

Grants are payable to various organizations in the fiscal years ending March 31 as follows:

| | |
|---|---|
| 2018 | $ 3,226,100 |
| 2019 | 72,630,500 |
| 2020 | 44,435,400 |
| 2021 | 19,510,700 |
| 2022 | 2,569,100 |
| Thereafter | 494,200 |
| | $ 142,866,000 |

# ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

**5. 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, 64% (2016 - 66%) and services to the community, 4% (2016 - 3%).

Support services reported in the statement of operations of $2,131,187 (2016 - $2,056,137) are reported after allocation of $4,243,373 (2016 - $4,320,783) to grantmaking expenses and $262,836 (2016 - $173,758) to services to the community.

**6. Services to the community:**

Services to the community are charitable activities other than grants, such as convening, knowledge sharing, capacity building and technical assistance to community organizations.

**7. Commitments:**

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

| | |
|---|---|
| 2018 | $ 1,397,300 |
| 2019 | 1,352,000 |
| 2020 | 1,359,800 |
| 2021 | 1,394,500 |
| 2022 | 720,100 |
| | $ 6,223,700 |

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.

# ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

**8. 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.

**9. 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 2016.

(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.

There has been no significant change to the market risk exposure from 2016.

# ONTARIO TRILLIUM FOUNDATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

**9. Financial risks (continued):**

(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, 2017, 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 $1,230,000.

The Foundation's investments are disclosed in note 2.

There has been no change to the interest rate risk exposure from 2016.

ornge
care in motion

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**Ornge**
June 28, 2017

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 28, 2017.

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 of 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, 2017 have been audited by MNP LLP ("MNP"). MNP'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, 2017 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 28, 2017 outlines the scope of MNP's examination and opinion on the consolidated financial statements.

On behalf of management,

Andrew L. McCallum, MD FRCPC
President & Chief Executive Officer

Dan Wright
Chief Financial Officer

## Management's Responsibility

To the Board of Directors of Ornge:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and Finance and Audit Committee are composed entirely of Directors who are neither management nor employees of the Organization. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Finance and Audit Committee has the responsibility of meeting with management and auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Organization's external auditors.

MNP LLP is appointed by the Board of Directors to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

June 28, 2017

Chief Executive Officer

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, 2017, and the consolidated statements of operations and changes in net deficiency, changes in 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 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 auditor considers 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 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, 2017 and the results of its operations, changes in net deficiency and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

June 28, 2017 — Licensed Public Accountants

MNP

# Ornge
## Consolidated Statement of Financial Position
*As at March 31, 2017*
*(In thousands of Canadian dollars)*

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | **6,145** | 9,973 |
| Accounts receivable | **4,703** | 6,259 |
| Prepaid expenses and deposits | **2,254** | 1,977 |
| Inventory *(Note 5)* | **6,723** | 5,618 |
| Current portion of maintenance contract *(Note 7)* | **2,479** | - |
| Assets held for sale | **-** | 177 |
| | **22,304** | 24,004 |
| **Restricted cash** *(Note 4)* | **400** | 280 |
| **Capital assets** *(Note 6)* | **180,646** | 183,376 |
| **Maintenance contract** *(Note 7)* | **11,214** | - |
| | **214,564** | 207,660 |
| **Liabilities** | | |
| **Current** | | |
| Short-term loan *(Note 8)* | **7,100** | - |
| Accounts payable and accrued liabilities *(Note 10)* | **19,074** | 18,938 |
| Employee future benefits *(Note 9)* | **1,263** | 1,268 |
| Current portion of long-term debt *(Note 10)* | **8,706** | 8,230 |
| | **36,143** | 28,436 |
| **Long-term debt** *(Note 10)* | **254,910** | 263,462 |
| | **291,053** | 291,898 |
| **Commitments and contingencies** *(Note 13), (Note 14)* | | |
| **Subsequent event** *(Note 16)* | | |
| **Net Deficiency** | **(76,489)** | (84,238) |
| | **214,564** | 207,660 |

**Approved on behalf of the Board**

Patricia Volker

**Director**

**Director**

*The accompanying notes are an integral part of these consolidated financial statements*

# Ornge

## Consolidated Statement of Operations and Changes in Net Deficiency

*For the year ended March 31, 2017*
*(In thousands of Canadian dollars)*

| | 2017 | 2016 |
|---|---|---|
| **Revenue** | | |
| Ontario Ministry of Health and Long-Term Care Transport Medicine program | **167,584** | 158,536 |
| Critical Care Land Ambulance program *(Note 12)* | **13,801** | 13,801 |
| Other income | **5,603** | 4,364 |
| | **186,988** | 176,701 |
| **Expenses** | | |
| Salaries, employee benefits and other labour-related *(Note 15)* | **68,870** | 69,086 |
| Carrier and fleet-related | **54,476** | 51,915 |
| Supplies, facilities and other | **15,443** | 13,121 |
| Critical Care Land Ambulance program *(Note 12)* | **13,801** | 13,801 |
| Interest | **15,620** | 16,087 |
| Amortization of capital assets | **11,175** | 10,510 |
| | **179,385** | 174,520 |
| | **7,603** | 2,181 |
| **Other income** | | |
| Gain on capital asset disposal - net *(Note 6)* | **(146)** | (72) |
| **Excess of revenue over expenses** | **7,749** | 2,253 |
| **Recovery of income tax** | **-** | (15) |
| **Excess of revenue over expenses** | **7,749** | 2,268 |
| **Net deficiency, beginning of the year** | **(84,238)** | (86,506) |
| **Net deficiency, end of the year** | **(76,489)** | (84,238) |

*The accompanying notes are an integral part of these consolidated financial statements*

# Ornge
## Consolidated Statement of Remeasurement Gains and Losses
*For the year ended March 31, 2017*
*(In thousands of Canadian dollars)*

| | 2017 | 2016 |
|---|---|---|
| **Accumulated remeasurement losses, beginning of year** | - | (980) |
| **Unrealized remeasurement gains** | | |
| Derivatives | - | 33 |
| **Remeasurement gains reclassified to statement of operations** | | |
| Derivatives | - | 947 |
| **Change in remeasurement gains for the year** | - | 980 |
| **Accumulated remeasurement gains, end of year** | - | - |

*The accompanying notes are an integral part of these consolidated financial statements*

# Ornge

## Consolidated Statement of Cash Flows

*For the year ended March 31, 2017*
*(In thousands of Canadian dollars)*

| | 2017 | 2016 |
|---|---|---|
| **Cash provided by (used for) the following activities** | | |
| **Operating** | | |
| Excess of revenue over expenses | **7,749** | 2,268 |
| Amortization | **12,507** | 10,667 |
| Gain on capital asset disposal - net | **(97)** | (72) |
| | **20,159** | 12,863 |
| Changes in working capital accounts | | |
| Accounts receivable | **1,556** | (1,404) |
| Prepaid expenses and deposits | **(277)** | (27) |
| Inventory | **(1,105)** | (1,130) |
| Restricted cash | **(120)** | (54) |
| Accounts payable and accrued liabilities | **136** | 1,506 |
| Employee future benefits | **(5)** | 145 |
| | **20,344** | 11,899 |
| **Financing** | | |
| Advances of short-term loan | **7,100** | - |
| Principal repayment of long-term debt | **(8,230)** | (7,607) |
| | **(1,130)** | (7,607) |
| **Capital activities** | | |
| Purchases of capital assets | **(9,133)** | (6,690) |
| Proceeds from sale of capital assets | **962** | 6,163 |
| Maintenance contract deposit | **(14,871)** | - |
| | **(23,042)** | (527) |
| **Increase (decrease) in cash** | **(3,828)** | 3,765 |
| **Cash, beginning of year** | **9,973** | 6,208 |
| **Cash, end of year** | **6,145** | 9,973 |

*The accompanying notes are an integral part of these consolidated financial statements*

# Ornge
## Notes to the Consolidated Financial Statements
*For the year ended March 31, 2017*
*(In thousands of Canadian dollars)*

**1. Purpose of the organization**

Ornge operates from a number of bases across the province coordinating all aspects of Ontario's air medical transport system, critical care land transport program, and the screening of inter-facility transfers of patients within the province. The consolidated financial statements include the activities of the Ornge group of entities (the "Organization"). These include Ornge, Ornge Issuer Trust, Ornge Foundation, and wholly owned subsidiaries: Ornge Global Air Inc. and 7506406 Canada Inc.

During the year, Ornge Corporate Services Inc., Ornge Global Real Estate Inc. and Ornge Real Estate Inc., former subsidiaries of Ornge, amalgamated into Ornge to form one legal entity. The amalgamated entity continues to operate as Ornge for the year ended March 31, 2017.

Ornge is a corporation continued under the Canada Not-for-profit Corporations Act. 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, Ornge Issuer Trust (the "Trust") was created as a special purpose entity under the laws of Ontario pursuant to a declaration of trust. Ornge 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 for the Trust.

Ornge Global Air Inc. ("Ornge Air") and its wholly-owned subsidiary 7506406 Canada Inc. (“7506406”) are for-profit entities incorporated under the Canada Business Corporations Act. The entities provide rotary wing and fixed wing transport services on behalf of the Organization. Pursuant to the Act and Income Tax Regulations, Ornge Air and 7506406 are subject to income taxes.

Ornge Foundation is a registered charity and is currently inactive.

The Organization is funded primarily by the Province of Ontario in accordance with a Performance Agreement established by the Ministry of Health and Long-Term Care (the "Ministry"). This Agreement sets out the rights and obligations of the two parties in respect of funding provided by the Ministry. It also sets out certain performance standards and obligations that establish acceptable results for the Organization's performance in a number of areas.

**2. Significant accounting policies**

These consolidated financial statements are the representations of management, 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 include the following significant accounting policies:

***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 such entities as defined in Note 1. Transactions and balances between the entities have been eliminated in arriving at the consolidated financial statements.

***Cash***

Cash includes balances with banks. Cash subject to restrictions that prevent its use for current purposes is included in restricted cash.

**Ornge**
**Notes to the Consolidated Financial Statements**
*For the year ended March 31, 2017*
*(In thousands of Canadian dollars)*

**2. Significant accounting policies** *(Continued from previous page)*

***Financial instruments***

The Organization recognizes its financial instruments when the Organization becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, and are subsequently measured at either fair value or amortized cost.

Fair value is determined by the amount that would be exchanged in an arm's length transaction between willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Transactions to purchase or sell these items are recorded on the trade date. Net gains and losses arising from changes in fair value are recognized in the statement of remeasurement gains and losses. With the exception of those instruments designated at fair value, all other financial assets and liabilities are subsequently measured at amortized cost using the effective interest rate method.

Financial assets measured at fair value include cash and restricted cash.

Financial assets measured at amortized cost include accounts receivable.

Financial liabilities measured at amortized cost include short-term loan, accounts payable and accrued liabilities and longterm debt.

Transaction costs directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in excess of revenue over expenses. Conversely, transaction costs are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

All financial assets are tested annually for impairment. Any impairment which is not considered temporary is recorded in the statement of operations. Write-downs of financial assets measured at cost and/or amortized cost to reflect losses in value may be reversed for subsequent increases in value. Reversals of any net remeasurements of financial assets measured at fair value are reported in the statement of remeasurement gains and losses.

***Inventory***

The Organization's inventory includes aviation parts and medical supplies, which are valued at the lower of cost and replacement cost. This inventory is consumed in the normal course of operations and is not intended for sale.

***Capital assets***

Capital assets are recorded at cost less accumulated amortization.

Assets under construction are 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, 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.

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 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.

**Ornge**
**Notes to the Consolidated Financial Statements**
*For the year ended March 31, 2017*
*(In thousands of Canadian dollars)*

2. **Significant accounting policies** *(Continued from previous page)*

**Capital assets** *(Continued from previous page)*

Amortization is provided using the straight-line method at rates intended to amortize the cost of assets over their estimated useful lives as follows:

| | Method | Rate |
|---|---|---|
| Buildings | straight-line | 10 - 40 years |
| Equipment and vehicles | straight-line | 3 - 5 years |
| Computer equipment and software | straight-line | 3 years |
| Leasehold improvements | straight-line | over term of lease |
| Aircraft airframes | straight-line | 20 - 30 years |
| Aircraft engines | straight-line | 20 years |
| Avionics and rotables | straight-line | 5 - 30 years |

***Maintenance and repairs***

The Organization has entered into long-term maintenance ("LTM") contracts for the maintenance of fixed wing engines, rotary wing airframes, and fixed and rotary wing avionics. The costs are based on a contractual hourly rate multiplied by flight hours (subject to a minimum required hours) or an annual fixed amount. Maintenance costs that are not covered by the LTM contracts are expensed as incurred.

Certain LTM contracts that the Organization entered into contain buy-in provisions, which represent the hours flown by the aircraft prior to when they were placed in the LTM program. Buy-in provision payments are initially capitalized and subsequently recognized as an expense on a straight-line basis over the term of the contract.

***Revenue recognition***

The Organization follows the deferral method of accounting for contributions. Most of the Organization's revenue is received from the Ministry under the terms of its service contract with the Organization. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. 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.

Unrestricted donations are recognized as revenue when received, and restricted donations are 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.

**2. Significant accounting policies** *(Continued from previous page)*

***Foreign currency translation***

Transaction amounts denominated in foreign currencies are translated into their Canadian dollar equivalents at the prevailing exchange rate at the date of the transaction. Carrying values of monetary assets and liabilities and non-monetary items included in the fair value category reflect the exchange rates at the consolidated statement of financial position date.

Unrealized foreign exchange gains and losses are recognized in the consolidated statement of remeasurement gains and losses. In the period of settlement, the cumulative amount of remeasurement gains and losses is reversed in the consolidated statement of remeasurement gains and losses, and foreign exchange gains and losses are reclassified to the consolidated statement of operations.

***Employee future benefits***

The Organization's employee future benefit programs consist of a multi-employer defined benefit plan, a defined contribution plan, and a non-vested sick-leave program.

Certain full-time employees of the Organization participate in the Hospitals of Ontario Pension Plan ("HOOPP" or the "Plan"), which is a defined benefit multi-employer plan. Defined contribution accounting is used to recognize the Organization's share of a defined benefit multi-employer plan.

The Organization contributes to a defined contribution plan for certain employees. Contributions are expensed as incurred.

The Organization provides non-vested sick leave programs to unionized rotary wing, fixed wing, paramedics and operations control centre employees. The Organization recognizes a liability and an expense for these sick-leave programs that 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 is a sick leave program for non-union employees, however, benefits earned do not vest or accumulate 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.

***Allocation of expenses***

The Organization operates a Critical Care Land Ambulance ("CCLA") program. Program costs include personnel, premises and other expenses 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 allocating each component expense, and applies that basis consistently each year.

**Ornge**
**Notes to the Consolidated Financial Statements**
*For the year ended March 31, 2017*
*(In thousands of Canadian dollars)*

## 2. Significant accounting policies *(Continued from previous page)*

***Measurement uncertainty (use of estimates)***

The preparation of consolidated 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates are required to determine the useful lives of capital assets, the appropriate method of amortization of capital assets, the assessment of impairment of assets, the valuation of derivatives, and the assessment of actuarial assumptions for the non-vesting sick-leave benefit plan.

Non-vesting sick-leave benefit plan valuation is based on actuarial assumptions. Actuarial assumptions for the non-vesting sick-leave benefit plan are based on details of the membership and actuarial models. The valuation of assets held for sale is based on the expected proceeds from the sale.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

The amount of revenue recognized from the Ministry requires a number of estimates. Based on the Performance Agreement established between Ornge and the Ministry, if the Organization does not meet its performance standards or obligations, the Ministry has the right to adjust funding received by the Organization. The Ministry 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 Ministry 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. Change in accounting policy

The Organization early adopted Canadian Public Sector Accounting Standard PS 3430 *Restructuring transactions* on April 1, 2016. This standard would otherwise be effective for fiscal periods beginning on or after April 1, 2018. The standard establishes the accounting treatment of restructuring transactions. There was previously no specific standard addressing such transactions.

The standard was applied in accounting for the amalgamation of Ornge Corporate Services Inc., Ornge Global Real Estate Inc. and Ornge Real Estate Inc. into Ornge. Adoption of this standard was applied prospectively and did not have a material impact on the financial statements.

## 4. Restricted cash

Restricted cash consists of the following:

| | ***2017*** | *2016* |
|---|---|---|
| Deposit with BNY Trust Company of Canada ("Trustee") for $23,877 First Mortgage Series A Bond (representing 3 months' debt service) | **400** | 280 |

## 5. Inventory

Inventory consists of the following:

| | ***2017*** | *2016* |
|---|---|---|
| Aviation parts | **5,907** | 280 |
| Medical supplies | **816** | 728 |
| | **6,723** | 5,618 |

**Ornge**
**Notes to the Consolidated Financial Statements**
*For the year ended March 31, 2017*
*(In thousands of Canadian dollars)*

**6. Capital assets**

Capital assets consist of the following:

| | *Cost* | *Accumulated amortization* | *2017 Net book value* |
|---|---|---|---|
| Land | **3,243** | **-** | **3,243** |
| Buildings | **21,914** | **8,718** | **13,196** |
| Equipment and vehicles | **17,511** | **11,490** | **6,021** |
| Computer equipment and software | **8,183** | **5,453** | **2,730** |
| Aircraft airframes | **142,604** | **23,664** | **118,940** |
| Aircraft engines | **38,565** | **9,354** | **29,211** |
| Avionics and rotables | **11,354** | **5,970** | **5,384** |
| Leasehold improvements | **2,025** | **774** | **1,251** |
| Assets under construction | **670** | **-** | **670** |
| | **246,069** | **65,423** | **180,646** |

| | *Cost* | *Accumulated amortization* | *2016 Net book value* |
|---|---|---|---|
| Land | 3,243 | - | 3,243 |
| Buildings | 21,587 | 7,544 | 14,043 |
| Equipment and vehicles | 15,642 | 10,943 | 4,699 |
| Computer equipment and software | 7,250 | 3,917 | 3,333 |
| Aircraft airframes | 143,445 | 22,788 | 120,657 |
| Aircraft engines | 39,427 | 8,526 | 30,901 |
| Avionics and rotables | 10,263 | 5,338 | 4,925 |
| Leasehold improvements | 1,386 | 535 | 851 |
| Assets under construction | 724 | - | 724 |
| | 242,967 | 59,591 | 183,376 |

During the current year, it was determined that certain capital assets no longer had long-term service potential. As a result, the Organization recorded, as a reduction of cost, impairment of $76 (2016 - $250) comprised of: $76 (2016 - $151) related to airframes, aircraft engines, and avionics and $nil (2016 - $99) related to equipment and vehicles.

**Ornge**
**Notes to the Consolidated Financial Statements**
*For the year ended March 31, 2017*
*(In thousands of Canadian dollars)*

## 7. Maintenance contract

During the year, the Organization entered into a six-year maintenance program for its rotary wing airframes. Under this agreement, the buy-in provision is initially capitalized and subsequently amortized on a straight-line basis over the life of the contract.

| | ***2017*** | *2016* |
|---|---|---|
| Buy-in provision | **14,871** | - |
| Less: amortization | **(1,178)** | - |
| | **13,693** | - |
| Less: current portion | **(2,479)** | - |
| | **11,214** | - |

## 8. Short-term loan

On December 15, 2016, the Organization entered into a short term, unsecured credit facility for general corporate purposes. The facility currently allows borrowing of up to $40,000, bearing interest at the bank's prime rate less 0.50% per annum, under a revolving facility. The facility is unsecured and matures on December 15, 2019 with the option to extend for two additional years.

As of March 31, 2017, the outstanding balance was $7,100 (2016 - $nil).

## 9. Employee future benefits

The Organization allocates to unionized employees a specified number of days each year for use as paid absences in the event of illness or injury. These 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 of accounting purposes as at March 31, 2017.

| | ***2017*** | *2016* |
|---|---|---|
| **Employee future benefit liabilities** | | |
| Accrued employee future benefit obligations | **1,299** | 1,356 |
| Unamortized actuarial loss, end of year | **(36)** | (88) |
| Employee future benefit liabilities | **1,263** | 1,268 |
| **Employee future benefit expenses** | | |
| Current year benefit cost | **558** | 677 |
| Interest on accrued benefit obligation | **25** | 22 |
| Employee future benefit expenses | **583** | 699 |

The significant actuarial assumptions adopted in measuring the Organization's accrued benefit obligations for the non-vesting sick leave were: a discount rate of 2.80% (2016 - 2.50%).

The significant actuarial assumptions adopted in measuring the Organization's expense for the non-vesting sick leave were: a discount rate of 2.75% (2016 - 2.50%), and salary cost escalation of 3.50% (2016 - 3.50%).

**Orrnge**

**Notes to the Consolidated Financial Statements**

*For the year ended March 31, 2017*

*(In thousands of Canadian dollars)*

**10. Long-term debt**

| | ***2017*** | *2016* |
|---|---|---|
| Series A unsecured debenture (a) | **242,704** | 250,606 |
| First Mortgage Series A bond (b) | **23,033** | 23,361 |
| Less: Unamortized transaction costs | **(2,121)** | (2,275) |
| | **263,616** | 271,692 |
| Less: Current portion | **(8,706)** | (8,230) |
| | **254,910** | 263,462 |

Principal repayments on long-term debt in each of the next five years and thereafter are estimated as follows:

| | ***Principal*** |
|---|---|
| 2018 | 8,706 |
| 2019 | 9,213 |
| 2020 | 9,747 |
| 2021 | 10,360 |
| 2022 | 11,202 |
| Thereafter | 216,509 |
| **Total** | 265,737 |

Accrued interest included in accounts payable and accrued liabilities amounted to $4,200 (2016 - $4,353).

(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 5.727% per annum, calculated annually and payable semi-annually. Until June 11, 2012, the Organization paid interest only on the outstanding Debenture. From December 11, 2012 the Organization will pay interest and principal semi-annually until the maturity of the Debenture on 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.

The fair market value of the Debenture as at March 31, 2017 is $286,356 (2016 - $301,403). The yield on a similar private placement would be 3.57% (2016 - 3.43%). 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 reporting period, the Organization met all its covenants.

*(In thousands of Canadian dollars)*

**10. Long-term debt** *(Continued from previous page)*

(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 is repayable 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 $16,439, 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.

Given that there is no active secondary market for this issue, the bond will always be priced at par, yielding its original issue yield of 5.60%.

The Organization is subject to certain covenants associated with the Bond. During the reporting period, the Organization met all its covenants.

**11. Financial instruments**

The Organization, as part of its operations, carries a number of financial instruments and is exposed to interest, currency, credit, liquidity price risks arising from these financial instruments. The risk exposure and management’s objectives, policies and processes for measuring and managing the risks have not changed significantly during the year.

***Credit risk***

Credit risk is the risk of financial loss because a counter party to a financial instrument fails to discharge its contractual obligations.

The carrying amount of the Organization’s financial instruments best represents the maximum exposure to credit risk.

The maximum credit risk exposure as at March 31 is:

| | ***2017*** | *2016* |
|---|---|---|
| Cash | **6,145** | 9,973 |
| Restricted cash | **400** | 280 |
| Accounts receivable | **4,703** | 6,259 |
| | **11,248** | 16,512 |

***Liquidity risk***

The Organization derives most of its operating revenue from the Ministry. The Organization is bound by a Performance Agreement with the Ministry, which 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 short-term, unsecured credit facility that is used when sufficient cash flow is not available from the Ministry funding to cover operating expenditures (see Note 8).

The Organization monitors its cash requirements based on financial forecasts and anticipated cash flows.

# Ornge
## Notes to the Consolidated Financial Statements
*For the year ended March 31, 2017*
*(In thousands of Canadian dollars)*

**11. Financial instruments** *(Continued from previous page)*

***Foreign currency risk***

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In seeking to manage the risks from foreign exchange rate fluctuations, the Organization monitors current exchange rates and fluctuations to manage its accounts payable and accrued liabilities.

The Organization enters into transactions for purchases and warranty claims that are denominated in U.S. dollars for which the related accounts payable balances are subject to exchange rate fluctuations. As at March 31, 2017, the following items are denominated in U.S. dollars:

| | ***2017 U.S.$ (In thousands)*** | *2016 U.S.$ (In thousands)* |
|---|---|---|
| Accounts payable and accrued liabilities | **2,092** | 1,416 |

A 1% change in the U.S. dollar foreign exchange rates would change accounts payable and accrued liabilities by $28, resulting in a change to unrestricted net deficiency and accumulated remeasurement gains and losses in the amount of $28.

***Interest rate risk***

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

The Organization is exposed to interest rate risk with respect to its long-term debt. A change in the interest rate of the 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.

***Commodity risk***

The Organization requires significant quantities of aviation 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 aviation fuel. The price of aviation fuel is sensitive to, among other things, the price of crude oil, refining, and delivery costs. As at March 31, 2017, the Organization has not entered into any hedge contracts.

***Fair value of financial instruments***

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: Quoted prices (unadjusted) are available in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the Organization to develop its own assumptions.

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.

Cash and restricted cash that the Organization held as at March 31, 2017 fall within Level 1 of the fair value hierarchy.

**Ornge**
**Notes to the Consolidated Financial Statements**
*For the year ended March 31, 2017*
*(In thousands of Canadian dollars)*

### 12. Critical Care Land Ambulance program expenses

The Critical Care Land Ambulance program expenses consist of direct program costs and allocation of general support expenses as follows:

| | ***2017*** | *2016* |
|---|---|---|
| Direct program costs - CCLA | **12,775** | 12,333 |
| Allocation of administrative costs - CCLA | **1,026** | 1,468 |
| | **13,801** | 13,801 |

### 13. Commitments

The Organization has entered into various operating agreements 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. The estimated minimum annual payments are as follows:

| | |
|---|---|
| Within one year | 16,844 |
| Between one and five years | 20,530 |
| Beyond five years | 8,237 |
| | 45,611 |

### 14. 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. The former CEO filed a counter claim in the amount of $3,000 and a separate claim against the Organization for $12,200 in connection with his termination. All claims and counter claims filed by the former CEO against the Organization have been dismissed. Subsequent to year-end, the parties have agreed to settle the legal action against the Organization's former CEO.

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 named as a defendant in charges brought under the Canada Labour Code resulting from an air ambulance helicopter accident in 2013. The maximum potential liability is estimated to be $3,000. No liability has been accrued in connection with these claims as the maximum amount is not likely and a more reliable estimate cannot be 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. There are other claims covered by HIROC. Management believes that their coverage is adequate to cover any amounts payable in connection with these claims.

**15. Pension plans**

Certain full-time employees of the Organization are eligible to be members of HOOPP (the "Plan"), 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 $3,541 (2016 - $3,472) and is included in salaries and employee benefits expense and specifically funded programs in the consolidated 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, 2016 disclosed net assets available for benefits of $70,359 million with pension obligations of $54,461 million, resulting in a surplus of $15,898 million.

The Organization also maintains a defined contribution pension plan for certain groups of its employees. During the year ended March 31, 2017, the Organization contributed and expensed an aggregate of $1,825 (2016 - $1,668) to this plan.

**16. Subsequent event**

On April 1, 2017, Ornge entered into an engine LTM agreement for the rotary wing fleet. Under this agreement, Ornge will be charged based on contractual hourly rates, multiplied by actual flight hours, subject to a minimum number of required hours. The maximum amount payable is $58,500 USD over the term of the agreement, terminating at the earlier of the completion of the second overhaul period or twenty years.

OTTAWA CONVENTION CENTRE
CENTRE DES CONGRÈS D'OTTAWA
CANADA'S MEETING PLACE
LE LIEU DE RENCONTRE DU CANADA

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**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.

| | |
|---|---|
| Nina Kressler | Dan Young, CPA, CMA |
| President & Chief Executive Officer | Vice-President & Chief Operating Officer |

June 22, 2017

June 22, 2017

## Independent Auditor’s Report

**To the Members of**
**Ottawa Convention Centre / Société du Centre des Congrès d’Ottawa**

We have audited the accompanying financial statements of Ottawa Convention Centre / Société du Centre des Congrès d’Ottawa, which comprise the statement of financial position as at March 31, 2017 and the statements of operations, changes in net assets (liabilities) 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*

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 / Société du Centre des Congrès d'Ottawa as at March 31, 2017 and the results of its operations, changes in its net assets (liabilities) 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 / Société du Centre des Congrès d'Ottawa

Statement of Financial Position

**As at March 31, 2017**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | 4,601,176 | 1,236,744 |
| Accounts receivable | 685,474 | 1,191,548 |
| Prepaid expenses | 86,949 | 82,150 |
| | 5,373,599 | 2,510,442 |
| Property, plant and equipment (note 3) | 150,905,133 | 156,179,744 |
| | 156,278,732 | 158,690,186 |
| **Liabilities and Net Assets** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | 2,164,402 | 1,804,663 |
| Deferred revenue and deposits | 2,992,013 | 2,451,315 |
| Current portion of long-term debt (note 4) | 154,451 | 147,414 |
| | 5,310,866 | 4,403,392 |
| Deferred revenue and deposits | 786,394 | 477,739 |
| Long-term debt (note 4) | 50,857,196 | 48,810,329 |
| Deferred contributions related to property, plant and equipment (note 5) | 103,822,979 | 107,035,910 |
| | 160,777,435 | 160,727,370 |
| **Net liabilities** | (4,498,703) | (2,037,184) |
| | 156,278,732 | 158,690,186 |

**Commitments and contingencies** (note 9)

**Approved by the Board of Directors**

_______________ Director _______________ Director

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

# Ottawa Convention Centre / Société du Centre des Congrès d'Ottawa

Statement of Operations

**For the year ended March 31, 2017**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Revenue** | | |
| Food and beverage | 10,255,778 | 9,553,086 |
| Space rental | 4,555,652 | 4,374,680 |
| Commissions | 1,752,922 | 1,529,300 |
| Advertising | 492,119 | 608,893 |
| Other | 75,204 | 104,414 |
| Interest earned | 16,108 | 14,075 |
| | 17,147,783 | 16,184,448 |
| **Expenses** (note 6) | | |
| Direct | 7,443,951 | 6,994,047 |
| Facilities | 5,214,272 | 5,048,796 |
| Selling, general and administrative | 2,605,495 | 3,013,055 |
| | 15,263,718 | 15,055,898 |
| **Excess of revenue over expenses before undernoted items** | 1,884,065 | 1,128,550 |
| Interest on long-term debt | (2,283,904) | (2,198,235) |
| Amortization of deferred contributions related to property, plant and equipment | 3,212,931 | 3,212,931 |
| Amortization of property, plant and equipment | (5,274,611) | (5,287,897) |
| **Excess of expenses over revenue for the year** | (2,461,519) | (3,144,651) |

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

## Ottawa Convention Centre / Société du Centre des Congrès d'Ottawa

Statement of Changes in Net Assets (Liabilities)

**For the year ended March 31, 2017**

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Net assets (liabilities) - Beginning of year** | (2,037,184) | 1,107,467 |
| **Excess of expenses over revenue for the year** | (2,461,519) | (3,144,651) |
| **Net liabilities - End of year** | (4,498,703) | (2,037,184) |

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

# Ottawa Convention Centre / Société du Centre des Congrès d'Ottawa

Statement of Cash Flows

**For the year ended March 31, 2017**

| | 2017 $ | 2016 $ |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Excess of expenses over revenue for the year | (2,461,519) | (3,144,651) |
| Items not affecting cash - | | |
| Amortization of property, plant and equipment | 5,274,611 | 5,287,897 |
| Amortization of deferred contributions related to property, plant and equipment | (3,212,931) | (3,212,931) |
| Capitalization of interest to long-term debt | 2,201,318 | 2,108,932 |
| | 1,801,479 | 1,039,247 |
| Net change in non-cash working capital balances (note 7) | 1,710,367 | (851,439) |
| | 3,511,846 | 187,808 |
| **Capital activity** | | |
| Purchase of property, plant and equipment | - | (721,142) |
| **Financing activity** | | |
| Repayment of long-term debt | (147,414) | (140,698) |
| **Increase (decrease) in cash during the year** | 3,364,432 | (674,032) |
| **Cash - Beginning of year** | 1,236,744 | 1,910,776 |
| **Cash - End of year** | 4,601,176 | 1,236,744 |
| **Supplementary information** | | |
| Interest paid | 82,586 | 89,303 |

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

# Ottawa Convention Centre / Société du Centre des Congrès d’Ottawa
Notes to Financial Statements
**March 31, 2017**

## 1 Nature of organization

The Ottawa Convention Centre / Société du Centre des Congrès d’Ottawa (“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 Centre 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 may receive 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 / Société du Centre des Congrès d’Ottawa
Notes to Financial Statements
**March 31, 2017**

### Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided for using the straight-line method over the estimated useful lives 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 $71,171 (2016 - $81,023) for contributions made to the defined contribution pension plan, which is included in selling, general and administrative expenses.

# Ottawa Convention Centre / Société du Centre des Congrès d'Ottawa
Notes to Financial Statements
**March 31, 2017**

**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

| | | | 2017 |
|---|---|---|---|
| | Cost<br>$ | Accumulated amortization<br>$ | Net carrying amount<br>$ |
| Building | 170,840,512 | 25,553,080 | 145,287,432 |
| Software | 274,577 | 274,577 | - |
| Furniture, equipment and fixtures | 8,394,470 | 5,016,179 | 3,378,291 |
| Technology network | 2,476,912 | 990,765 | 1,486,147 |
| Land | 753,263 | - | 753,263 |
| | 182,739,734 | 31,834,601 | 150,905,133 |

| | | | 2016 |
|---|---|---|---|
| | Cost<br>$ | Accumulated amortization<br>$ | Net carrying amount<br>$ |
| Building | 170,840,512 | 21,282,067 | 149,558,445 |
| Software | 274,577 | 274,577 | - |
| Furniture, equipment and fixtures | 8,394,470 | 4,177,708 | 4,216,762 |
| Technology network | 2,476,912 | 825,638 | 1,651,274 |
| Land | 753,263 | - | 753,263 |
| | 182,739,734 | 26,559,990 | 156,179,744 |

# Ottawa Convention Centre / Société du Centre des Congrès d'Ottawa

Notes to Financial Statements

**March 31, 2017**

## 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.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Loan payable from the Ontario Financing Authority, bearing interest at the province's cost of funds plus 0.525% (2016 - 0.525%), compounded annually, including $2,201,318 (2016 - $2,108,932) of capitalized interest. As at March 31, 2017, the interest rate amounted to 4.7% (2016 - 4.7%). | 49,324,395 | 47,123,077 |
| Debt related to acquisition of technology services network, bearing interest at 4.7% per annum and requiring blended monthly payments of $19,167 (2016 - $19,167) from April 2011 through March 2026. | 1,687,252 | 1,834,666 |
| | 51,011,647 | 48,957,743 |
| Less: Current portion | 154,451 | 147,414 |
| | 50,857,196 | 48,810,329 |

Long-term debt, excluding the loan payable to the Ontario Financing Authority, matures over the next five years as follows.

| | $ |
|---|---|
| Year ending March 31, 2018 | 154,451 |
| 2019 | 161,823 |
| 2020 | 169,548 |
| 2021 | 177,641 |
| 2022 | 186,120 |

**Ottawa Convention Centre / Société du Centre des Congrès d'Ottawa**
Notes to Financial Statements
**March 31, 2017**

## 5 Deferred contributions

| | 2017 $ | 2016 $ |
|---|---|---|
| Balance - Beginning of year | 107,035,910 | 110,248,841 |
| Amortization | (3,212,931) | (3,212,931) |
| Balance - End of year | 103,822,979 | 107,035,910 |

## 6 Expenses

Expenses presented by function are represented as follows.

| | 2017 $ | 2016 $ |
|---|---|---|
| Direct | 7,443,951 | 6,994,047 |
| Facilities | 10,488,883 | 10,336,693 |
| Selling, general and administrative | 2,605,495 | 2,993,690 |
| Financial | 2,283,904 | 2,198,235 |
| | 22,822,233 | 22,522,665 |

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.

| | 2017 $ | 2016 $ |
|---|---|---|
| Accounts receivable | 506,074 | (907,263) |
| Prepaid expenses | (4,799) | (1,062) |
| Accounts payable and accrued liabilities | 359,739 | (207,702) |
| Deferred revenue and deposits - Current | 540,698 | 194,758 |
| Deferred revenue and deposits - Long-term | 308,655 | 69,830 |
| | 1,710,367 | (851,439) |

# Ottawa Convention Centre / Société du Centre des Congrès d'Ottawa

Notes to Financial Statements

**March 31, 2017**

## 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, 2017, based on their invoice date, the following accounts receivable were past due but not impaired.

| | 31 - 60 days<br>$ | 61 - 90 days<br>$ | 91 - 120 days<br>$ | Over 120 days<br>$ |
|---|---|---|---|---|
| Accounts receivable | 3,792 | - | - | - |

### 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 loan payable. In November 2012, the Centre successfully renegotiated its long-term debt agreement with the Ontario Financing Authority (note 4). As at March 31, 2017, the Centre owes $49,324,395 to the Ontario Financing Authority (OFA). The OFA requires that a payment of $4,048,240 be made on September 1, 2018. While the Centre is expected to be able to meet its obligations relating to its ongoing operations as they come due, the Centre does not expect to have sufficient cash on hand to make this payment in addition to meeting its other liabilities.

## Ottawa Convention Centre / Société du Centre des Congrès d'Ottawa

Notes to Financial Statements

**March 31, 2017**

In recognition of these circumstances, management has been in discussions with the OFA to negotiate alternative terms of repayment. The OFA is reviewing the situation and has maintained that while it does not anticipate calling the loan before the first payment comes due in September 2018, the OFA's current expectation continues to be that the Centre will fulfill its requirements under the Loan Agreement and successfully pay the required amount on September 1, 2018.

The table below is a maturity analysis of the Centre's financial liabilities as at March 31, 2017, 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 | 2,000,760 | 41,812 | 60,915 | 60,915 | 2,164,402 |
| Long-term debt (excluding non-capitalized interest) | 76,321 | 78,130 | 890,136 | 642,665 | 1,687,252 |
| | 2,077,081 | 119,942 | 951,051 | 703,580 | 3,851,654 |

**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 $49,324,395 (2016 - $47,123,077) 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, other than on its loan payable.

As at March 31, 2017, the Centre's total exposure to interest rate risk is $49,324,395. The Centre's estimate of the effect on net assets, as at March 31, 2017, of a one percent increase or decrease in the interest rate on the loan payable, with all other variables held constant, would amount to an approximate increase or decrease of $493,239. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

**Financing available**

The Centre had available as at March 31, 2017, a line of credit for the amount of $3,000,000, with interest charged at prime.

**Ottawa Convention Centre / Société du Centre des Congrès d'Ottawa**
Notes to Financial Statements
**March 31, 2017**

**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.

## 9 Commitments and contingencies

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 $250,000 (2016 - $240,000) with annual escalations of $10,000 thereafter. Under the technology services agreement, the Centre will make annual payments of $296,130 (2016 - $293,000) attributable to the ongoing service agreement. All figures exclude applicable taxes.

The Centre is involved in various claims and litigation that arise in the normal course of business. During the year ended March 31, 2016, a statement of claim in the amount of $9,600,000 was issued against the Centre related to an alleged breach of contract by the plaintiff. The Centre does not agree with the claim. At this time, the outcome of these proceedings cannot be determined. No amounts have been recorded related to this claim.

## 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, long-term debt 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.

# 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 & CEO

Jerry Zhang
Director of Finance and Administration

June 21, 2017

Office of the Auditor General of Ontario
Bureau de la vérificatrice générale 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, 2017 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 audit 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, 2017 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.

Toronto, Ontario
June 21, 2017

Susan Klein, CPA, CA, LPA
Assistant Auditor General

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# PROVINCE OF ONTARIO COUNCIL FOR THE ARTS
(OPERATING AS ONTARIO ARTS COUNCIL)

Statement of Financial Position

March 31, 2017, with comparative information for 2016

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | Operating fund | Restricted and endowment funds | Total | Total |
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 2,146,670 | $ 1,712,225 | $ 3,858,895 | $ 3,798,184 |
| Accounts receivable | 107,467 | – | 107,467 | 310,805 |
| Prepaid expenses | 47,643 | – | 47,643 | 22,520 |
| | 2,301,780 | 1,712,225 | 4,014,005 | 4,131,509 |
| Investments (notes 2(b) and 8) | 874,430 | 28,108,806 | 28,983,236 | 26,988,973 |
| Capital assets (note 3) | 2,271,489 | – | 2,271,489 | 2,820,959 |
| | $ 5,447,699 | $ 29,821,031 | $ 35,268,730 | $ 33,941,441 |
| **Liabilities and Fund Balances** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | $ 1,292,497 | $ – | $ 1,292,497 | $ 1,169,051 |
| Current portion of deferred lease inducement | 165,322 | – | 165,322 | 165,322 |
| Current portion of employee future benefits (note 2(b)) | 282,924 | – | 282,924 | 196,406 |
| | 1,740,743 | – | 1,740,743 | 1,530,779 |
| Deferred lease inducement | 1,281,245 | – | 1,281,245 | 1,211,405 |
| Employee future benefits (note 2(b)) | 108,998 | – | 108,998 | 140,854 |
| Fund balances: | | | | |
| Invested in capital assets | 824,922 | – | 824,922 | 1,444,232 |
| Restricted for endowment purposes (note 4) | – | 70,311 | 70,311 | 70,311 |
| Externally restricted funds (Schedule 2) | – | 16,387,341 | 16,387,341 | 16,748,305 |
| Internally restricted funds (note 5) | – | 6,406,858 | 6,406,858 | 6,483,985 |
| Unrestricted | 1,312,342 | – | 1,312,342 | 970,413 |
| Accumulated remeasurement gains | 179,449 | 6,956,521 | 7,135,970 | 5,341,157 |
| | 2,316,713 | 29,821,031 | 32,137,744 | 31,058,403 |
| | $ 5,447,699 | $ 29,821,031 | $ 35,268,730 | $ 33,941,441 |

Commitments (note 10)
Economic dependence (note 11)

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, 2017, with comparative information for 2016

| | Operating fund | | Restricted and endowment funds | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Income: | | | | | | |
| General grant - Province of Ontario | $ 59,937,400 | $ 59,937,400 | $ – | $ – | $ 59,937,400 | $ 59,937,400 |
| Special grants: | | | | | | |
| Creative Engagement Fund | 553,329 | 750,000 | – | – | 553,329 | 750,000 |
| Canada/Ontario French Language Projects | 170,000 | 200,300 | – | – | 170,000 | 200,300 |
| Indigenous Culture Fund | 108,894 | – | – | – | 108,894 | – |
| Investment income (note 8) | 327,390 | 342,933 | 1,787,464 | 1,766,329 | 2,114,854 | 2,109,262 |
| Fund administration fee (note 6) | 68,702 | 66,610 | – | – | 68,702 | 66,610 |
| Recovery of prior years' grants | 48,531 | 139,149 | – | – | 48,531 | 139,149 |
| Miscellaneous | 64,825 | 106,556 | – | – | 64,825 | 106,556 |
| Contributions | – | – | 15,444 | 7,596 | 15,444 | 7,596 |
| | 61,279,071 | 61,542,948 | 1,802,908 | 1,773,925 | 63,081,979 | 63,316,873 |
| Expenditures: | | | | | | |
| Awards and expenses | – | – | 1,857,093 | 1,578,088 | 1,857,093 | 1,578,088 |
| Grants | 50,788,716 | 50,540,445 | – | – | 50,788,716 | 50,540,445 |
| Administration (Schedule 1) | 8,445,437 | 8,019,175 | – | – | 8,445,437 | 8,019,175 |
| Services (Schedule 1) | 2,706,205 | 3,045,738 | – | – | 2,706,205 | 3,045,738 |
| | 61,940,358 | 61,605,358 | 1,857,093 | 1,578,088 | 63,797,451 | 63,183,446 |
| Excess of income over expenditures (expenditures over income) | (661,287) | (62,410) | (54,185) | 195,837 | (715,472) | 133,427 |
| Fund balances, beginning of year | 2,548,960 | 1,718,072 | 28,509,443 | 30,656,852 | 31,058,403 | 32,374,924 |
| Interfund transfers | 383,906 | 929,760 | (383,906) | (929,760) | – | – |
| Net remeasurement gains (losses) | 45,134 | (36,462) | 1,749,679 | (1,413,486) | 1,794,813 | (1,449,948) |
| Fund balances, end of year | $ 2,316,713 | $ 2,548,960 | $ 29,821,031 | $ 28,509,443 | $ 32,137,744 | $ 31,058,403 |

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, 2017, with comparative information for 2016

| | 2017 | 2016 |
|---|---|---|
| Accumulated remeasurement gains, beginning of year | $ 5,341,157 | $ 6,791,105 |
| Unrealized gains (losses) attributed to: | | |
| Portfolio investments | 2,068,212 | (1,022,435) |
| Amounts reclassified to the statement of operations: | | |
| Portfolio investments | (273,399) | (427,513) |
| Net remeasurement gains (loss) for the year | 1,794,813 | (1,449,948) |
| Accumulated remeasurement gains, end of year | $ 7,135,970 | $ 5,341,157 |

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, 2017, with comparative information for 2016

| | 2017 | 2016 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess of income over expenditures (expenditures over income) | $ (715,472) | $ 133,427 |
| Items not involving cash: | | |
| Gain on income distributions | (1,502,467) | (1,364,354) |
| Gain on sale of investments | (344,830) | (335,989) |
| Amortization and impairment of capital assets | 721,347 | 550,147 |
| Change in deferred lease inducement | 69,840 | 315,097 |
| Change in non-cash operating working capital: | | |
| Accounts receivable | 203,338 | (266,755) |
| Prepaid expenses | (25,123) | 15,114 |
| Accounts payable and accrued liabilities | 123,446 | 133,987 |
| Recovery of lease inducement | – | 1,061,630 |
| Employee future benefits | 54,662 | (54,624) |
| | (1,415,259) | 187,680 |
| Capital activities: | | |
| Purchase of capital assets | (171,877) | (2,350,111) |
| Investing activities: | | |
| Proceeds from sale of investments, net | 1,647,847 | 1,615,265 |
| Increase (decrease) in cash and cash equivalents | 60,711 | (547,166) |
| Cash and cash equivalents, beginning of year | 3,798,184 | 4,345,350 |
| Cash and cash equivalents, end of year | $ 3,858,895 | $ 3,798,184 |

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, 2017

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, 2017

**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 on pooled investments and bank balances.

Investment income related to the operating fund is recognized based on the actual number of units held in the pooled investment and recognized as income of the operating fund.

Investment income on the pooled investments related to the restricted and endowment funds is recognized as income of the restricted and endowment funds.

(e) Employee benefits:

(i) The OAC follows Public Sector Accounting standards for accounting for employee future benefits, which include post-employment benefits payable upon termination. Under these standards, 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 and other benefits for amounts that accrue but have not vested.

(f) Lease inducements:

Lease inducements include a leasehold improvement allowance and free rents received by the OAC. The total amount of the lease inducements is amortized on a straight-line basis over the lease term.

# PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2017

**1. Significant accounting policies (continued):**

(g) 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 |
| Office renovations | 5 years |
| Leasehold improvements | Lease term |

When a capital asset no longer contributes to OAC's ability to provide services, its carrying value is written down to its residual value.

(h) 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 or loss 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, 2017

---

**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 1 and Level 2.

Derivative financial instruments and portfolio investments in equity instruments that are quoted in an active market and included on the statement of financial position are measured at fair value upon inception.

(i) 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, 2017

**1. Significant accounting policies (continued):**

(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 income and expenditures during the year. Significant estimates include carrying value of capital assets and provisions for certain employee future benefits liabilities. 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 $329,679 (2016 - $303,878) are included in salaries and benefits in Schedule 1.

(b) Non-pension benefits:

The cost of post-retirement non-pension employee benefits is paid by the Treasury Board Secretariat 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 $280,733 (2016 - $247,375), of which $171,734 (2016 - $106,521) has been classified as a current liability.

The OAC has set aside funds to meet these liabilities and other obligations and invested these funds in the same pooled investments as the restricted and endowment funds. As at March 31, 2017, this investment has a market value of $874,430 (2016 - $777,830) 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, 2017

## 3. Capital assets:

| | | | 2017 | 2016 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Audiovisual equipment | $ 157,415 | $ 58,454 | $ 98,961 | $ 111,875 |
| Computer hardware and software | 1,072,795 | 481,956 | 590,839 | 280,937 |
| Furniture and fixtures | 354,204 | 144,239 | 209,965 | 271,253 |
| Office equipment | 94,899 | 46,364 | 48,535 | 63,237 |
| Office renovations | 35,120 | 3,512 | 31,608 | – |
| Leasehold improvements | 1,476,093 | 184,512 | 1,291,581 | 1,439,191 |
| Assets under development | – | – | – | 654,466 |
| | $ 3,190,526 | $ 919,037 | $ 2,271,489 | $ 2,820,959 |

During fiscal year 2017, the OAC recognized an impairment charge of $256,789 (2016 - $353,576).

## 4. Fund balances restricted for endowment purposes:

| | 2017 | 2016 |
|---|---|---|
| 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, 2017

## 5. Internally restricted fund balances:

| | Fund balances, beginning of year | Transfer from (to) Operating Fund | Investment income | Awards and expenses paid | Fund balances, end of year |
|---|---|---|---|---|---|
| Venture fund | $ 4,185,685 | $ 195,169 | $ 564,850 | $ (251,071) | $ 4,694,633 |
| Board-designated reserve fund | 1,435,000 | (565,625) | – | – | 869,375 |
| Granting programs fund | 863,300 | (20,450) | – | – | 842,850 |
| | $ 6,483,985 | $ (390,906) | $ 564,850 | $ (251,071) | $ 6,406,858 |

## 6. Related party transactions:

(a) Included in Schedule 2, awards and expenses paid, 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.

| | 2017 | 2016 |
|---|---|---|
| Fund administration fee | $ 68,702 | $ 66,610 |

(b) 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 (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 $25,276 (2016 - $10,800) and total rent allocated amounted to $10,800 (2016 - $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.

# PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2017

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**7. Ontario Arts Foundation:**

The Foundation was incorporated under the Corporations Act (Ontario) 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.

The majority of the fund balances, $46,809,562 of the total of $77,743,156, 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.

# PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2017

**7. Ontario Arts Foundation (continued):**

Audited financial statements of the Foundation are available upon request. Financial summaries of the Foundation, reported in accordance with Public Sector Accounting, are as follows:

(a) Financial position:

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Cash and investments | $ 77,763,156 | $ 71,930,033 |
| **Liabilities and Fund Balances** | | |
| Accounts payable and accrued liabilities | $ 20,000 | $ 29,175 |
| Fund balances | 77,743,156 | 71,900,858 |
| | $ 77,763,156 | $ 71,930,033 |

(b) Changes in fund balances:

| | 2017 | 2016 |
|---|---|---|
| Fund balances, beginning of year | $ 71,900,858 | $ 74,186,563 |
| Contributions received | 904,463 | 1,334,585 |
| Investment gain | 7,110,807 | 3,789,120 |
| Fund administration fee | 382,639 | 373,956 |
| Awards and expenses | (5,069,512) | (4,617,336) |
| Net remeasurement gains | 2,513,901 | (3,166,030) |
| Fund balances, end of year | $ 77,743,156 | $ 71,900,858 |

(c) Cash flows:

| | 2017 | 2016 |
|---|---|---|
| Cash flows from operating activities | $ (3,782,577) | $ (2,892,317) |
| Cash flows from investing activities | 3,443,493 | 3,366,194 |
| | $ (339,084) | $ 473,877 |

# PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2017

## 8. Investments and investment income:

Net investment income comprises the following:

| | 2017 | 2016 |
|---|---|---|
| Income distributions | $ 1,502,467 | $ 1,364,354 |
| Realized gains | 344,830 | 335,989 |
| Bank interest | 267,557 | 408,919 |
| | $ 2,114,854 | $ 2,109,262 |

The asset mix of the investments is as follows:

| | 2017 | 2016 |
|---|---|---|
| Foreign equities, predominantly U.S. | 37% | 39% |
| Fixed income securities | 24% | 25% |
| Canadian equities | 21% | 19% |
| Alternative investments | 16% | 15% |
| Cash and cash equivalents | 2% | 2% |

The OAC currently holds $6,955,977 (cost - $5,195,476) (2016 - $6,747,243 (cost - $5,411,954)) in fixed income securities that are exposed to interest rate price risk. The interest rates range from nil to 10.95% (2016 - 0.50% to 10.95%) for the year ended March 31, 2017.

# PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2017

**9. Public sector salary disclosures:**

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 2016. For the OAC, this disclosure is shown below:

| Name | Title | Salary | Taxable benefits |
|---|---|---|---|
| Feizal Bacchus | Manager of Operations | $ 118,774 | $ 176 |
| Peter Caldwell | Director and CEO | 211,031 | 340 |
| Kirsten Gunter | Director of Communications | 156,554 | 184 |
| Nina Small | Director of Human Resources | 114,825 | 185 |
| Kathryn Townshend | Director of Research, Policy and Evaluation | 115,428 | 186 |
| Carolyn Vesely | Director of Granting | 133,641 | 212 |
| Myles Warren | Dance and Awards Officer | 102,208 | 165 |
| Jerry Zhang | Director of Finance and Administration | 125,477 | 157 |

**10. Commitments:**

(a) Lease commitments:

The OAC leases office premises and office equipment under operating leases. The future annual lease payments, including utilities and operating costs, are summarized as follows:

| | |
|---|---|
| 2018 | $ 758,253 |
| 2019 | 746,201 |
| 2020 | 728,044 |
| 2021 | 733,712 |
| 2022 | 750,715 |
| 2023 and thereafter | 2,815,181 |
| | $ 6,532,106 |

# PROVINCE OF ONTARIO COUNCIL FOR THE ARTS
(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2017

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**10. Commitments (continued):**

(b) Grant commitments:

The OAC has approved grants of $655,045 (2016 - $726,129), 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.

**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 risks:

The OAC is exposed to interest rate and foreign currency risks 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.

# PROVINCE OF ONTARIO COUNCIL FOR THE ARTS

(OPERATING AS ONTARIO ARTS COUNCIL)

Notes to Financial Statements (continued)

Year ended March 31, 2017

**12. Financial instruments (continued):**

(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 2016.

**13. Comparative information:**

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

# PROVINCE OF ONTARIO COUNCIL FOR THE ARTS
(OPERATING AS ONTARIO ARTS COUNCIL)

Schedule 1 - Administration Expenses and Services

Year ended March 31, 2017, with comparative information for 2016

| | 2017 | 2016 |
|---|---|---|
| Administration expenses: | | |
| Salaries and benefits (notes 2(b) and 9) | $ 5,423,282 | $ 5,207,969 |
| Consulting and legal fees | 216,818 | 233,160 |
| Office rent and hydro (note 6) | 539,373 | 956,807 |
| Communications | 265,046 | 200,402 |
| Travel | 137,476 | 138,329 |
| Miscellaneous | 83,570 | 92,323 |
| Meetings | 71,874 | 66,864 |
| Telephone, postage and delivery | 68,906 | 92,825 |
| Amortization and impairment of capital assets | 721,347 | 550,147 |
| Maintenance and equipment rental | 68,123 | 77,631 |
| Personnel hiring and training | 39,334 | 45,070 |
| Office supplies, printing and stationery | 46,757 | 48,038 |
| Information services | 763,531 | 309,610 |
| | 8,445,437 | 8,019,175 |
| Services: | | |
| Other programs | 1,620,014 | 2,060,014 |
| Jurors and advisors | 635,457 | 635,077 |
| Canada/Ontario French language projects | 450,734 | 350,647 |
| | 2,706,205 | 3,045,738 |
| | $ 11,151,642 | $ 11,064,913 |

# PROVINCE OF ONTARIO COUNCIL FOR THE ARTS
(OPERATING AS ONTARIO ARTS COUNCIL)

Schedule 2 - Externally Restricted and Endowment Funds

Year ended March 31, 2017, with comparative information for 2016

| 2017 | Balance of Endowment Fund (note 4) | 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 | $ – | $ 21,230,492 | $ – | $ – | $ 2,865,014 | $ (1,547,730) | $ 22,547,776 |
| The Oskar Morawetz Memorial Fund | 26,000 | 264,454 | – | – | 39,196 | (23,852) | 279,798 |
| Dr. Heinz Unger Scholarship Fund | 17,235 | 80,829 | – | – | 13,234 | (1,301) | 92,762 |
| The Leslie Bell Scholarship Fund | 9,078 | 145,966 | – | 7,000 | 20,923 | (12,039) | 161,850 |
| The Vida Peene Fund | – | 127,461 | 15,444 | – | 17,201 | (17,690) | 142,416 |
| The John Hirsch Memorial Fund | – | 60,391 | – | – | 8,149 | (800) | 67,740 |
| The Canadian Music Centre John Adaskin Memorial Fund | 17,998 | 22,215 | – | – | 5,427 | (534) | 27,108 |
| Colleen Peterson Songwriting Fund | – | 16,733 | – | – | 2,258 | (1,758) | 17,233 |
| The Ruth Schwartz Fund | – | 6,605 | – | – | 892 | (318) | 7,179 |
| | $ 70,311 | $ 21,955,146 | $ 15,444 | $ 7,000 | $ 2,972,294 | $ (1,606,022) | $ 23,343,862 |

| 2016 | Balance of Endowment Fund (note 4) | 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 | $ – | $ 22,424,271 | $ – | $ – | $ 286,888 | $ (1,480,667) | $ 21,230,492 |
| The Oskar Morawetz Memorial Fund | 26,000 | 283,806 | – | – | 3,964 | (23,316) | 264,454 |
| Dr. Heinz Unger Scholarship Fund | 17,235 | 88,608 | – | – | 1,354 | (9,133) | 80,829 |
| The Leslie Bell Scholarship Fund | 9,078 | 138,385 | 131 | 7,125 | 1,886 | (1,561) | 145,966 |
| The Vida Peene Fund | – | 129,724 | 7,465 | – | 1,660 | (11,388) | 127,461 |
| The John Hirsch Memorial Fund | – | 60,277 | – | – | 771 | (657) | 60,391 |
| The Canadian Music Centre John Adaskin Memorial Fund | 17,998 | 25,125 | – | – | 552 | (3,461) | 22,216 |
| Colleen Peterson Songwriting Fund | – | 17,696 | – | – | 226 | (1,189) | 16,733 |
| The Ruth Schwartz Fund | – | 6,842 | – | – | 87 | (325) | 6,604 |
| | $ 70,311 | $ 23,174,734 | $ 7,596 | $ 7,125 | $ 297,388 | $ (1,531,697) | $ 21,955,146 |

*Fund balances end of year include unrealized gain (losses) of $6,956,521 (2016 - $5,206,841) as presented in the statement of financial position.

ROYAL ONTARIO MUSEUM

ANCIENT CULTURES
BIODIVERSITY
CANADA
CONTEMPORARY CULTURE
EARTH & SPACE
FOSSILS & EVOLUTION
TEXTILES & FASHIONS
WORLD ART & CULTURE

## ROYAL ONTARIO MUSEUM

### Management's Responsibility for Financial Reporting

The accompanying financial statements of the Royal Ontario Museum for the year ending March 31, 2017 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 22, 2017.

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 the Royal Ontario Museum management,

Dave Tymchuk
VP of Finance

Nick Bobrow
Deputy Director of Operations & CFO

KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

# 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, 2017, 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, 2017, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

June 22, 2017
Vaughan, 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, 2017, with comparative information for 2016

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Investments (note 2) | $ 177 | $ 170 |
| Other accounts receivable | 2,041 | 2,067 |
| Deferred exhibition costs and other assets | 1,470 | 1,045 |
| Due from The Royal Ontario Museum Foundation (note 3) | 1,325 | 185 |
| | 5,013 | 3,467 |
| Pension asset (note 4) | 13,503 | 11,602 |
| Capital assets (note 5) | 211,832 | 219,751 |
| | $ 230,348 | $ 234,820 |
| **Liabilities and Net Deficit** | | |
| Current liabilities: | | |
| Bank indebtedness (note 6(a)) | $ 678 | $ 1,658 |
| Accounts payable and accrued liabilities | 6,851 | 7,282 |
| Current portion of long-term debt (note 6(b)) | – | 446 |
| Deferred contributions (note 7) | 3,491 | 3,355 |
| Deferred revenue | 3,697 | 3,180 |
| | 14,717 | 15,921 |
| Long-term debt (note 6(b)) | 26,000 | 29,699 |
| Deferred capital contributions (note 8) | 190,202 | 190,902 |
| Accrued non-pension liability (note 4) | 9,531 | 9,100 |
| | 240,450 | 245,622 |
| Net deficit: | | |
| Operating Fund | (11,958) | (12,527) |
| Restricted Fund | 1,856 | 1,725 |
| | (10,102) | (10,802) |
| Commitments (note 10) | | |
| | $ 230,348 | $ 234,820 |

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, 2017, with comparative information for 2016

| | Operating Fund | Restricted Fund | Capital Fund | 2017 Total | 2016 Total |
|---|---|---|---|---|---|
| Revenue: | | | | | |
| Grants: | | | | | |
| Province of Ontario | $ 27,868 | $ – | $ – | $ 27,868 | $ 27,398 |
| The Royal Ontario Museum Foundation (note 3) | 3,443 | 3,733 | – | 7,176 | 7,648 |
| Others | 377 | 41 | – | 418 | 90 |
| | 31,688 | 3,774 | – | 35,462 | 35,136 |
| Self-generated revenue: | | | | | |
| Admission fees | 12,916 | – | – | 12,916 | 9,254 |
| Amortization of deferred capital contributions | – | – | 11,523 | 11,523 | 11,694 |
| Event and concession | 8,410 | 1 | – | 8,411 | 8,350 |
| Membership | 3,016 | – | – | 3,016 | 2,572 |
| Programs and education | 2,286 | 27 | – | 2,313 | 2,572 |
| Other | 864 | 763 | – | 1,627 | 942 |
| Donations | 124 | 1,005 | – | 1,129 | 1,670 |
| | 27,616 | 1,796 | 11,523 | 40,935 | 37,054 |
| | 59,304 | 5,570 | 11,523 | 76,397 | 72,190 |
| Expenses: | | | | | |
| Salaries and benefits | 33,537 | 402 | – | 33,939 | 31,181 |
| Amortization of capital assets | 583 | – | 11,523 | 12,106 | 12,373 |
| Supplies and cost of goods sold | 4,276 | 367 | – | 4,643 | 4,171 |
| General administration | 3,328 | 676 | – | 4,004 | 4,019 |
| Utilities | 3,711 | – | – | 3,711 | 3,305 |
| Marketing and promotions | 3,689 | – | – | 3,689 | 3,405 |
| Objects and specimens | – | 3,276 | – | 3,276 | 2,733 |
| Repairs, maintenance and exhibition development | 2,886 | 28 | – | 2,914 | 2,482 |
| Telephone, equipment and Information technology | 2,099 | 119 | – | 2,218 | 1,982 |
| Rental and leases | 1,860 | – | – | 1,860 | 2,068 |
| Freight and transportation | 1,228 | – | – | 1,228 | 843 |
| Interest and other bank charges (note 6(b)) | 787 | 2 | – | 789 | 920 |
| Miscellaneous | 507 | 204 | – | 711 | 744 |
| Research and training | 244 | 365 | – | 609 | 491 |
| | 58,735 | 5,439 | 11,523 | 75,697 | 70,717 |
| Excess of revenue over expenses | $ 569 | $ 131 | $ – | $ 700 | $ 1,473 |

See accompanying notes to financial statements.

# THE ROYAL ONTARIO MUSEUM

Statement of Changes in Net Deficit
(In thousands of dollars)

Year ended March 31, 2017, with comparative information for 2016

| | Operating Fund | Restricted Fund | 2017 Total | 2016 Total |
|---|---|---|---|---|
| Balance, beginning of year | $ (12,527) | $ 1,725 | $ (10,802) | $ (12,275) |
| Excess of revenue over expenses | 569 | 131 | 700 | 1,473 |
| Balance, end of year | $ (11,958) | $ 1,856 | $ (10,102) | $ (10,802) |

See accompanying notes to financial statements.

# THE ROYAL ONTARIO MUSEUM

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2017, with comparative information for 2016

| | 2017 | 2016 |
|---|---|---|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Excess of revenue over expenses | $ 700 | $ 1,473 |
| Items not involving cash: | | |
| Amortization of capital assets | 12,106 | 12,373 |
| Amortization of deferred capital contributions | (11,523) | (11,694) |
| Change in pension asset | (2,293) | (1,070) |
| Change in accrued non-pension liability | 431 | 533 |
| Change in non-cash operating working capital: | | |
| Other accounts receivable | 26 | (422) |
| Deferred exhibition costs and other assets | (33) | (1,003) |
| Due from The Royal Ontario Museum Foundation | (1,140) | 531 |
| Accounts payable and accrued liabilities | (431) | 893 |
| Deferred contributions | 136 | 421 |
| Deferred revenue | 517 | 536 |
| | (1,504) | 2,571 |
| Capital activities: | | |
| Contributions received for capital asset purchases | 10,823 | 5,301 |
| Purchase of capital assets | (4,187) | (5,185) |
| | 6,636 | 116 |
| Financing activities: | | |
| Repayments of long-term debt | (4,145) | (3,200) |
| Change in bank indebtedness | (980) | 382 |
| | (5,125) | (2,818) |
| Investing activities: | | |
| Change in investments | (7) | 131 |
| 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, 2017

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, 2017

**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 grants and self-generated revenue. 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.

Externally restricted contributions 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, 2017

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, 2017, 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, 2017

**1. Significant accounting policies (continued):**

(e) Deferred membership costs:

Goods and Services costs of memberships are deferred to match membership fees. (note 1(b)).

(f) Employee future benefits:

The Museum provides retirement and other future benefits for substantially all retirees and employees. These future benefits include registered and supplemental defined benefit pensions, which are based on a formula that takes into account earnings and length of service, supplemental defined contribution pension benefits, which are based on earnings in excess of those covered under the registered plan, and post-employment and post-retirement health and dental benefits. The supplemental pension plans and the other future benefits are unfunded with benefits paid directly by the Museum.

The Museum's registered defined benefit pension plan was merged with The Colleges of Applied Arts and Technology Pension Plan (the "CAAT Plan") effective January 1, 2016 (the "Merger"), which is a jointly sponsored pension plan. The CAAT Plan is financed by contributions from participating members and participating employers, and by investment earnings. Information on the funding policy and total financial status of the CAAT Plan can be found in the CAAT Plan's Annual Report. Obligations for current and former Museum employees represent 1.2% of total CAAT Plan obligations.

The Museum is accounting for its participation in the CAAT Plan as a defined benefit pension plan. The Merger was approved in late 2016 and assets transferred December 19, 2016. For the fiscal year ending March 31, 2016, the Museum expensed what the benefit cost would have been in the absence of the Merger as Merger approval was pending at that time. For the fiscal year ending March 31, 2017, the Museum maintained defined benefit plan accounting and expensed what the benefit cost was for the Museum's portion of the CAAT Plan as if the Merger was effective at the beginning of the fiscal year at March 31, 2016. Certain comparative amounts have been restated/reclassified to conform with the presentation adopted in the current period.

# THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2017

1. **Significant accounting policies (continued):**

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 CAAT Plan was as at January 1, 2017. The most recent actuarial valuation of the supplementary pension arrangements was as at March 31, 2016. The most recent actuarial valuation of the non-pension plans for accounting purposes was as at March 31, 2015. Actuarial valuations are performed at least every three years.

Actuarial gain (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 as at April 1, 2016 of the active employees covered by the pension plan is 9 years for the registered plan and 2 years for the supplemental plan. The estimated average remaining service period at April 1, 2016 of the active employees covered by the non-pension plan is 12 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, 2017

**1. Significant accounting policies (continued):**

(g) 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.

(h) Foreign currency translation:

Foreign currency translations 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.

(i) Objects and specimens:

The value of objects and specimens has been excluded from the statement of financial position. Gifted objects and specimens are recorded as revenue at values based on appraisals by independent appraisers. The acquisition of both gifted and purchased objects and specimens is expensed.

# THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2017

## 1. Significant accounting policies (continued):

(j) Contributed materials and services:

Contributed materials and services are recorded only if the fair value can be reasonably estimated at the date of contribution and when the materials and services are used in the normal course of the Museum's operations. Contributed materials and services in the amount of $980 (2016 - $1,518) have been recorded as revenue and expenses.

(k) 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 useful lives of capital assets, and assets and obligations related to employee future benefits. Actual amounts could differ from those estimates.

## 2. Investments:

| | | Fair value | |
|---|---|---|---|
| | Level | 2017 | 2016 |
| Bond funds | 2 | $ 153 | $ 146 |
| Preferred securities | 1 | 24 | 24 |
| | | $ 177 | $ 170 |

## 3. The Royal Ontario Museum Foundation:

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 ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2017

## 3. The Royal Ontario Museum Foundation (continued):

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, March 31, are as follows:

| | 2017 | 2016 |
|---|---|---|
| General funds | $ 1,233 | $ (1,092) |
| Restricted funds available currently | 15,756 | 11,657 |
| Endowment funds: | | |
| Externally restricted | 32,153 | 28,906 |
| Internally restricted | 12,607 | 11,774 |
| | $ 61,749 | $ 51,245 |

During the year ended March 31, 2017, the Foundation granted $12,800 (2016 - $10,630) to the Museum. Of this amount, $5,663 (2016 - $3,152) was recorded as an increase in deferred capital contributions in connection with the ROM Project (note 8) and $3,207 (2016 - $3,148) was recorded as deferred contributions for purposes other than the ROM Project (note 7).

Amounts due from the Foundation are non-interest bearing and have no fixed terms of repayment.

## 4. Employee benefits:

The benefits expense arising during the period for the Museum's pension and non-pension plans is as follows:

| | Pension | | Non-pension | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Current period benefit cost | $ 1,136 | $ 1,325 | $ 399 | $ 437 |
| Interest cost on accrued benefit obligation | 5,648 | 5,191 | 272 | 242 |
| Expected return on market-related value of plan assets | (6,106) | (5,743) | – | – |
| Amortization of actuarial losses (gains) | 670 | 309 | (83) | 7 |
| Benefits expense | $ 1,348 | $ 1,082 | $ 588 | $ 686 |

# THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2017

## 4. Employee benefits (continued):

Information about the Museum's pension and non-pension plans is as follows:

| | Pension | | Non-pension | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Accrued benefit obligation | $ 107,400 | $ 97,816 | $ 8,621 | $ 8,273 |
| Market value of plan assets | 116,692 | 105,560 | – | – |
| Funded status - plan surplus (deficit) | 9,292 | 7,744 | (8,621) | (8,273) |
| Unamortized net actuarial loss (gain) | 4,211 | 3,858 | (910) | (827) |
| Financial position asset (liability) | $ 13,503 | $ 11,602 | $ (9,531) | $ (9,100) |

Included in the pension asset on the statement of financial position is a liability of $1,451 (2016 - $1,218) in connection with supplementary pension arrangements.

The market-related value of plan assets is $117,035 (2016 - $108,584).

The significant actuarial assumptions adopted to determine the expense for the Museum's benefit plans are as follows:

| | Pension | | Non-pension | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Discount rate | 5.56% | 5.70% | 3.40% | 2.80% |
| Expected long-term rate of return on plan assets | 5.60% | 5.75% | – | – |
| Rate of compensation increase | 2.00% | 2.00% | – | – |
| Rate of long-term inflation | 2.00% | 2.00% | – | – |

# THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2017

**4. 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 | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Discount rate | 5.56% | 5.46% | 3.50% | 3.40% |
| Rate of compensation increase | 3.00% | 2.00% | – | – |
| Rate of long-term inflation | 2.00% | 2.00% | – | – |

For measurement purposes of the non-pension plans as at March 31, 2017, an initial weighted average increase in the cost of health care and dental benefits of 5.54% in 2017 was assumed decreasing to a 4.50% annual rate of increase after 2028.

Other information about the Museum's pension and non-pension plans is as follows:

| | Pension | | Non-pension | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Employee contributions | $ 2,100 | $ 1,782 | $ – | $ – |
| Employer contributions | 3,248 | 2,545 | 157 | 153 |
| Benefits paid | 4,430 | 5,174 | 157 | 153 |
| Loss (gain) during the period on accrued benefit obligation | 5,131 | 2,069 | (166) | (1,081) |
| Actual return on market value of assets | 10,214 | (3,322) | – | – |

The 2016 and 2017 contributions reflect contributions to the Museum registered defined benefit pension plan through December 31, 2015 and contributions to the CAAT Plan thereafter.

The measurement date for the benefit plans was March 31, 2017.

# THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2017

## 5. Capital assets:

| | Cost | Accumulated amortization | 2017 Net book value | 2016 Net book value |
|---|---|---|---|---|
| Land | $ 931 | $ – | $ 931 | $ 931 |
| Building | 46,113 | 38,196 | 7,917 | 9,073 |
| Galleries | 44,551 | 26,580 | 17,971 | 18,690 |
| Building improvements | 37,788 | 23,334 | 14,454 | 13,403 |
| ROM Project: | | | | |
| Building | 204,516 | 55,397 | 149,119 | 154,767 |
| Galleries | 36,144 | 18,904 | 17,240 | 19,087 |
| Furniture and equipment | 9,079 | 4,879 | 4,200 | 3,800 |
| | $ 379,122 | $ 167,290 | $ 211,832 | $ 219,751 |

As at March 31, 2017, 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 $9,193 (2016 - $4,472).

## 6. 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 (2017 - 2.7%; 2016 - 2.6%). As at March 31, 2017, the outstanding balance in connection with this facility was $678 (2016 - $1,658).

(ii) $2,000 letter of credit facility. As at March 31, 2017 and 2016, 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. During the year, the Museum paid off the remainder of the fixed rate portion of the loan.

# THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2017

**6. Credit facilities (continued):**

The floating rate portion of $26,000 bears interest at the Province of Ontario's one-year cost of funds plus 150-basis-points, reset annually. The floating rate for 2016 - 2017 was set at 2.19% and the floating rate for 2017 - 2018 has been set as 2.27%. Under the terms of the facility, there is no minimum payment requirement providing the facility is fully paid by March 31, 2027.

The fair value of the floating rate portion is comparable to the carrying value as the rate fluctuates with current market rates.

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.

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.

Included in interest and other bank charges on the statement of operations is $674 (2016 - $839) of interest in long term debt.

**7. Deferred contributions:**

Deferred contributions represent grants from federal and provincial governments, corporations and the Foundation (note 3) which carry restrictions, and 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, 2017

**8. 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:

| | 2017 | 2016 |
|---|---|---|
| Balance, beginning of year | $ 190,902 | $ 197,295 |
| Amortization of deferred capital contributions | (11,523) | (11,694) |
| Contributions received for capital asset purchases (note 3) | 10,823 | 5,301 |
| Balance, end of year | $ 190,202 | $ 190,902 |

**9. 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 2016.

(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 6. There have been no significant changes to the liquidity risk exposure from 2016.

# THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2017

**9. 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. There have been no significant changes to the market's risk exposures from 2016.

(i) Currency 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 floating rate interest-bearing long-term debt. 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.

**10. Commitments:**

The Museum's future commitments under long-term leases for equipment are as follows:

| | |
|---|---|
| 2018 | $ 208 |
| 2019 | 208 |
| 2020 | 175 |
| 2021 | 10 |

# THE ROYAL ONTARIO MUSEUM

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2017

**11. Comparative information:**

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

## TORONTO ORGANIZING COMMITTEE FOR THE 2015 PAN AMERICAN AND PARAPAN AMERICAN GAMES (TORONTO 2015)

Toronto Organizing Committee for the 2015 Pan American and Parapan American Games (Toronto 2015) financial statements for the year ended March 31, 2017 were not available at the time of printing. When available, they will be posted to the website: www.ontario.ca.

WATERFRONToronto

# Management's Responsibility for the Financial Statements

**June 13, 2017**

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 the 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.

W.K.

President and CEO

Chief Financial Officer

Tel: 905 270-7700
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Toll-free: 866 248 6660
www.bdo.ca

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, 2017, 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, 2017, 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 Professional Accountants, Licensed Public Accountants
Mississauga, Ontario
June 13, 2017

## Toronto Waterfront Revitalization Corporation

Statement of financial position
as at March 31, 2017

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current assets | | |
| Cash (Note 9) | **16,966,265** | 6,167,082 |
| Short-term investments | **15,052,356** | 7,872,765 |
| Receivables (Note 3) | **18,072,577** | 23,311,094 |
| Deposits, prepaid expenses, rent receivable and other assets (Note 4) | **4,785,015** | 4,739,983 |
| | **54,876,213** | 42,090,924 |
| Restricted cash & investments (Note 5) | **11,484,278** | 16,691,071 |
| Assets under development (Note 6) | **300,135,354** | 309,114,553 |
| Capital assets (Note 7) | **87,699,936** | 104,473,822 |
| Other assets (Note 8) | **26,625** | 4,095,155 |
| | **454,222,406** | 476,465,525 |
| **Liabilities and net assets** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 10) | **6,700,489** | 8,004,294 |
| Deferred contributions and grants (Note 11) | **45,446,291** | 58,342,841 |
| Other liabilities and settlements (Note 12) | **466,631** | 267,151 |
| | **52,613,411** | 66,614,286 |
| Other liabilities and settlements (Note 12) | **5,491,844** | 5,069,396 |
| | **58,105,255** | 71,683,682 |
| Net assets (Note 13) | **396,117,151** | 404,781,843 |
| | **454,222,406** | 476,465,525 |

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

Approved on behalf of the Board:

A Henderson Director

Director

# Toronto Waterfront Revitalization Corporation

## Statement of financial activities

## as at March 31, 2017

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| | $ | $ |
| **Revenue** | | |
| Province of Ontario | **4,000,000** | 20,223,287 |
| City of Toronto | **5,804,106** | 30,042,127 |
| Other restricted contributions | **4,027,662** | 2,296,212 |
| | **13,831,768** | 52,561,626 |
| Less: Government contributions for land and/or assets under development | **(11,471,822)** | (19,941,311) |
| Decrease/(increase) in deferred contributions for continuing operations related to future periods | **12,896,550** | (7,734,652) |
| | **15,256,496** | 24,885,663 |
| **Expenses (Note 14)** | | |
| Waterfront-Wide Initiatives | **5,898,571** | 13,842,907 |
| Port Lands | **3,651,361** | 7,124,034 |
| Central Waterfront | **2,067,890** | 3,232,028 |
| East Bayfront | **1,865,091** | 5,026,858 |
| West Don Lands | **861,562** | 863,764 |
| | **14,344,475** | 30,089,591 |
| Excess (deficiency) of revenues over expenses before other items | **912,021** | (5,203,928) |
| Net other operating income (Note 17) | **2,148,935** | 1,310,505 |
| Net gain on sale of land and parking facility (Note 18) | **3,326,343** | - |
| **Excess (deficiency) of revenues over expenses** | **6,387,299** | (3,893,423) |

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, 2017

| | **March 31, 2017** | March 31, 2016 |
|---|---|---|
| | **$** | $ |
| Accumulated remeasurement gains, beginning of the year | **1,635** | 19,850 |
| Unrealized gains (losses) attributable to: | | |
| Short term investments | **125,736** | (13,032) |
| **Net remeasurement gains (losses) for the year** | **125,736** | **(13,032)** |
| Amounts reclassified to the statement of financial activities | - | (5,183) |
| **Accumulated remeasurement gains, end of the year** | **127,371** | 1,635 |

## Statement of changes in net assets
## year ended March 31, 2017

| | **March 31, 2017** | March 31, 2016 |
|---|---|---|
| | **$** | $ |
| Net assets, beginning of year | **404,781,843** | 521,430,451 |
| Add: Excess (deficiency) of revenue over expenses | **6,387,299** | (3,893,423) |
| Add: Net remeasurement gains (losses) | **125,736** | (13,032) |
| Less: Remeasurement gains reclassified to the statement of financial activities | - | (5,183) |
| Less: transfer of assets to Government (Note 6) | **(26,649,549)** | (132,678,281) |
| Add: Government contributions for assets under development | **11,471,822** | 19,941,312 |
| **Net assets, end of the year** | **396,117,151** | 404,781,843 |

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

# Toronto Waterfront Revitalization Corporation
## Statement of cash flows
### year ended March 31, 2017

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| | $ | $ |
| **Cash flows from operating activities** | | |
| Cash received from: | | |
| Government and other restricted contributions for operating activities | **13,339,336** | 47,852,546 |
| Unrestricted contributions for operating activities | **12,063,680** | 4,000,000 |
| Investment income received for operating activities | **116,685** | 96,288 |
| Sales tax rebates | **2,844,370** | 5,993,107 |
| Net rental income received for operating activities | **2,276,602** | 2,379,172 |
| | **30,640,673** | 60,321,113 |
| Cash paid for: | | |
| Planning and implementation expenses | **(11,843,197)** | (29,370,868) |
| Project support expenses | **(8,105,228)** | (7,372,812) |
| Transfer payments | **(788,500)** | (20,147,600) |
| | **(20,736,925)** | (56,891,280) |
| **Net cash received from operating activities** | **9,903,748** | 3,429,833 |
| **Cash flows from capital activities** | | |
| Cash received from government contributions for assets under development | **16,962,658** | 11,118,033 |
| Cash used to acquire capital assets | **(321,717)** | (158,182) |
| Cash used to acquire assets under development | **(15,210,574)** | (51,534,241) |
| **Net cash received (paid) for capital activities** | **1,430,367** | (40,574,390) |
| **Cash flows from investing activities** | | |
| Cash received from short term investments redemption | **1,000,000** | 34,559,363 |
| Cash used to purchase additional security investments | **(1,621,362)** | - |
| Invested in restricted cash | **86,430** | - |
| Cash paid for borrowing costs | **-** | (85,797) |
| **Net cash (paid)/received from investment activities** | **(534,932)** | 34,473,566 |
| Increase (decrease) in cash | **10,799,183** | (2,670,990) |
| Cash, beginning of the year | **6,167,082** | 8,838,072 |
| **Cash, end of the year** | **16,966,265** | 6,167,082 |

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

# Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2017

## 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 in accordance 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, 2017

### 2. Significant accounting policies (con't)

In addition to contributions, the Corporation has several other revenue streams, which it accounts for as follows:

**(i) Property Operations:** Property revenues primarily consist of rental revenues from leasing activities and parking operations. Revenues from parking operations are recognized at the point of service on a cash basis. Property rental income is recognized as it is earned over the course of a tenants lease. Waterfront Toronto has retained substantially all of the risks and benefits of ownership of the properties which it rents out and therefore accounts for leases with its tenants as operating leases. Rental revenue includes recoveries of operating expenses, including property, capital and similar taxes. Operating expense recoveries are recognized in the period that they are chargeable to tenants.

**(ii) Land Sales:** The gain or loss from the sale of real property owned by TWRC is recognized when title passes to the purchaser (control is transferred) upon closing at which time all or substantially all of the funds are receivable, or have been received, and the conditions of the sale have been completed.

**(iii) Delivery Agreements:** The Corporation has entered into certain agreements to deliver construction management and development services. Under these agreements, TWRC bills eligible costs to clients as they are incurred. Revenue from delivery agreements is recognized at the time of billing, when the costs become measurable and collection is reasonably assured.

### (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 acquisiton, 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:

**(i) 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;

**(ii) 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

**(iii) 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 cashable bonds, which mature in December 2019. 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.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.

# Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2017

## 2. Significant accounting policies (con't)

### (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.

### (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 |
| Computer hardware and software | 3 years |
| Leasehold improvements | 5 years |
| Furniture and fixtures | 5 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. When a capital asset no longer contributes to the Corporation's ability to provide services or the value of future economic benefits associated with the capital asset is less than its net book value, the carrying value of the capital asset is reduced to reflect the decline in the asset's value.

### (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 revenue and expenses during the period. Actual results could differ from those estimates. The items subject to the most significant estimates are the amortization and impairment of capital assets, accrued liabilities, deferred revenue and accrued benefit liability.

### (j) Trusts under administration

Trusts administered by TWRC are not consolidated in the financial statements as they are not controlled by the Corporation.

# Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2017

## 3. Receivables

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| | $ | $ |
| Sale of parking facility (Note 18) | 11,687,382 | - |
| Developer receivables | 4,000,000 | 4,000,000 |
| Rent and other receivables | 1,787,386 | 1,474,557 |
| City of Toronto | 435,329 | 3,336,537 |
| HST receivable | 162,480 | - |
| Province of Ontario | - | 14,500,000 |
| | 18,072,577 | 23,311,094 |

The Corporation completed the sale of a parking facility effective March 31, 2017. Closing funds were received on April 04, 2017. Developer receivables relate to the sale of land, are non-interest bearing and are collectible on March 31, 2018. This receivable is secured by an irrevocable letter of credit.

## 4. Deposits and prepaid expenses

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| | $ | $ |
| Construction deposits | 4,464,939 | 4,414,056 |
| Prepaid expenses | 287,610 | 293,460 |
| Current portion of prepaid expenses and rent receivables (Note 8) | 32,467 | 32,467 |
| | 4,785,015 | 4,739,983 |

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 (2016 - $2,181,199) are non-interest bearing; and the construction deposits outstanding from Toronto Hydro of $2,283,740 (2016 - $2,232,858) will be returned to TWRC including interest at the Prime Business Rate set by the Bank of Canada less two percent.

## 5. Restricted cash and investments

The Corporation has received deposits that are subject to restrictions that prevent its use for operating purposes, as outlined below:

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| | $ | $ |
| East Bayfront public art | 3,130,500 | - |
| Deposit - Broadband services | 2,803,370 | 2,803,370 |
| Deposit - Bayside project agreement | 2,125,852 | 2,098,817 |
| West Don Lands security fund | 1,574,638 | 7,873,190 |
| East Bayfront child care facility | 1,448,147 | 1,431,491 |
| Escrow Account - River City development | 291,642 | 359,935 |
| Holdbacks payable (including HST) | 110,129 | 2,124,267 |
| | 11,484,278 | 16,691,071 |

WDL Security funds of $1,574,638 represents financial security for municipal infrastructure necessary for West Don Lands Phase 1 development to be released to Waterfront Toronto in FY 2017/18.

# Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2017

## 6. Assets under development

The following table details assets under development by category:

| | **March 31, 2017** | March 31, 2016 |
|---|---|---|
| | **$** | $ |
| Roads, public realm, utilities | **244,640,810** | 235,387,536 |
| Parkland | **15,656,307** | 41,643,663 |
| Land under development | **39,838,237** | 32,083,354 |
| | **300,135,354** | 309,114,553 |

The following table details assets under development by precinct:

| | **East Bayfront** | **Central Waterfront** | **West Don Lands** | **Port Lands** | **Total** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| Opening balance, April 1, 2016 | 183,150,894 | 10,558,967 | 115,404,692 | - | 309,114,553 |
| Capital additions | 11,061,192 | 516,335 | 740,609 | 1,464,729 | 13,782,865 |
| Direct project management - Note 14 | 1,257,482 | 95,735 | 156,292 | - | 1,509,509 |
| General and support expenses - Note 14 | 2,023,164 | 106,192 | 248,620 | - | 2,377,976 |
| Transfers of completed assets to Government | - | - | (26,649,549) | - | (26,649,549) |
| **Closing balance, March 31, 2017** | **197,492,732** | **11,277,229** | **89,900,664** | **1,464,729** | **300,135,354** |

During the year ended March 31, 2017 construction was substanitally completed on portions of Corktown Common in the West Don Lands. Pursuant to the execution of the relevant acceptance documents, these assets costing $26,649,549 were formally transferred to the City of Toronto. This transfer has been recorded as a reduction to assets under development and included as a distribution of net assets in the statement of changes in net assets.

## 7. Capital assets

| | **March 31, 2017** | | March 31, 2016 | |
|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | Cost | Accumulated Amortization |
| | $ | $ | $ | $ |
| Land | 87,305,565 | - | 87,305,565 | - |
| Computer hardware and software | 3,224,739 | 2,874,875 | 3,124,283 | 2,693,938 |
| Leasehold improvements | 720,569 | 681,895 | 676,298 | 675,569 |
| Furniture and fixtures | 665,537 | 660,040 | 659,867 | 658,934 |
| Office equipment | 269,054 | 268,718 | 269,053 | 268,490 |
| Parking facility | - | - | 21,200,570 | 4,464,883 |
| | 92,185,464 | 4,485,528 | 113,235,636 | 8,761,814 |
| **Cost less accumulated amortization** | | **87,699,936** | | **104,473,822** |

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. During the year, the Corporation sold its concession in the parking facility located at 51 Dockside Drive (Note 18).

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 (2016 - $Nil).

## Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2017

### 8. Other assets

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| | $ | $ |
| Developer receivable | 26,625 | 4,026,625 |
| Prepaid expenses and rent receivables | 32,467 | 100,997 |
| | 59,092 | 4,127,622 |
| Less: current portion (Note 4) | (32,467) | (32,467) |
| | 26,625 | 4,095,155 |

### 9. Credit facility

In 2015 the Corporation secured a revolving credit facility which provides for a maximum borrowing amount of $40 million. The facility bears interest at the Canadian Prime less 0.25%. The interest rate was 2.45% at March 31, 2017 (2016 - 2.45%). The facility is secured by a first lien interest over several of the Corporation's real properties in the City of Toronto and a General Security Agreement creating a first priority interest over property of the Corporation not obtained through a contribution agreement, including accounts receivable. At March 31, 2017 the Corporation had not drawn on the Facility and the full $40,000,000 remained available.

Under the current financing agreement, the Corporation is subject to a financial covenant. The revolving credit facility stipulates that the Corporation must ensure that the most recent appraised value of the properties which secure the facility at all times provide a minimum of 150% coverage for the outstanding amount of credit. As at March 31, 2017, the Corporation is in compliance with this covenant and expects to be in compliance for the next 12 months.

### 10. Accounts payable and accrued liabilities

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| | $ | $ |
| Accrued liabilities | 5,555,936 | 5,373,463 |
| Accounts payable | 1,047,093 | 637,227 |
| Holdbacks payable | 97,460 | 1,879,883 |
| HST payable | - | 113,721 |
| | 6,700,489 | 8,004,294 |

### 11. 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, 2017, as well as contributions received for the acquisition of capital assets which have yet to be amortized.

| | March 31, 2017 | March 31, 2016 |
|---|---|---|
| | $ | $ |
| Expenditures of future periods | | |
| Balance, beginning of year | 50,925,223 | 41,545,360 |
| Additional contributions | 2,235,715 | 33,158,903 |
| Less: amounts recognized as revenue | (8,109,019) | (23,779,040) |
| Balance, end of period | 45,051,919 | 50,925,223 |
| Capital contributions | | |
| Balance, beginning of year | 7,417,618 | 9,062,829 |
| Add: contributions for acquisition of capital assets and assets under development | 11,596,053 | 19,402,723 |
| Less: direct contribution to net assets | (11,471,822) | (19,941,312) |
| Less: amount amortized to revenue | (7,147,477) | (1,106,622) |
| Balance, end of period | 394,372 | 7,417,618 |
| | 45,446,291 | 58,342,841 |

# Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2017

## 12. Other liabilities and settlements

Other liabilities and settlements largely represent security and developer deposits.

| | **March 31, 2017** | March 31, 2016 |
|---|---|---|
| | **$** | $ |
| Deposit - broadband services | **2,989,064** | 2,465,222 |
| Deposit - Bayside project agreement | **2,131,658** | 2,098,817 |
| Deposit - rent and other | **466,631** | 401,386 |
| Accrued benefit liability | **371,122** | 371,122 |
| Total other liabilities | **5,958,475** | 5,336,547 |
| Less: current portion | **(466,631)** | (267,151) |
| | **5,491,844** | 5,069,396 |

## 13. Net assets

a) Net assets recorded on the Statement of Financial Position are comprised of the following:

| | **March 31, 2017** | March 31, 2016 |
|---|---|---|
| | **$** | $ |
| Invested in capital assets (net of deferred capital contributions) | **87,305,565** | 97,056,205 |
| Invested in assets under development | **300,135,354** | 309,114,553 |
| Unrestricted surplus/(deficit) (Note 13b) | **8,548,861** | (1,390,549) |
| Accumulated re-measurement gains | **127,371** | 1,635 |
| | **396,117,151** | 404,781,843 |

b) Unrestricted surplus/(deficit)

| | **March 31, 2017** | March 31, 2016 |
|---|---|---|
| | **$** | $ |
| Unrestricted surplus/(deficit), opening balance | **(1,390,549)** | 32,619,716 |
| Excess (deficiency) of revenue over expenses | **6,387,299** | (3,893,423) |
| Contributed capital for parking facility | **9,750,638** | - |
| Transfer to assets under development | **(6,198,527)** | (30,116,842) |
| Unrestricted surplus/(deficit), closing balance | **8,548,861** | (1,390,549) |

**Toronto Waterfront Revitalization Corporation**
Notes to the financial statements
March 31, 2017

### 14. Expenses by Precinct and Function

| | Waterfront Wide-Initiatives | Port Lands | Central Waterfront | East Bayfront | West Don Lands | Total Mar 31, 2017 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| *Direct project costs:* | | | | | | |
| Transfer payments and grants | 552,426 | - | - | - | - | 552,426 |
| Project planning and implementation costs | 589,944 | 1,249,413 | 1,255,200 | 226,904 | 507,615 | 3,829,074 |
| Amortization | - | - | - | 1,245,675 | - | 1,245,675 |
| Project management - salaries, fees and benefits | 1,785,028 | 901,464 | 380,791 | 1,378,556 | 284,804 | 4,730,643 |
| Less project management - salaries, fees and benefits related to assets under development (Note 6) | - | - | (95,735) | (1,257,482) | (156,292) | (1,509,509) |
| | 2,927,398 | 2,150,877 | 1,540,256 | 1,593,653 | 636,127 | 8,848,310 |
| *General expenses:* | | | | | | |
| Salaries, fees and benefits | 1,979,786 | 999,820 | 422,338 | 1,528,965 | 315,878 | 5,246,787 |
| General and office administration | 624,666 | 315,465 | 133,257 | 482,422 | 99,666 | 1,655,477 |
| Communications, marketing and government relations | 157,875 | 79,729 | 33,679 | 121,925 | 25,189 | 418,398 |
| Information technology | 139,575 | 70,487 | 29,775 | 107,792 | 22,269 | 369,899 |
| Amortization | 69,271 | 34,983 | 14,777 | 53,497 | 11,052 | 183,581 |
| | 2,971,174 | 1,500,484 | 633,826 | 2,294,603 | 474,055 | 7,874,142 |
| Less general & support costs allocated to assets under development (Note 6) | - | - | (106,192) | (2,023,164) | (248,620) | (2,377,976) |
| | **5,898,571** | **3,651,361** | **2,067,890** | **1,865,091** | **861,562** | **14,344,475** |

General expenses for the year ending March 31, 2017 have been allocated to precincts using an overhead burden rate of 1.66 (2016 - 2.06) for every $1 of direct labour (project management - salaries and benefits). Total salaries, fees and benefits for the Corporation were $9,977,430 for the year ending March 31, 2017 (2016 - $8,930,328) comprising direct project management salaries, fees and benefits of $4,730,643 (2016 - $4,081,135) and general salaries, fees and benefits of $5,246,787 (2016 - $4,849,193).

Waterfront-wide initiatives include Gardiner/Lakeshore, Mimico Park, Port Union Waterfront Park.

**Toronto Waterfront Revitalization Corporation**
Notes to the financial statements
March 31, 2017

**14. Expenses by Precinct and Function (Cont.)**

| | Waterfront Wide-Initiatives | Port Lands | Central Waterfront | East Bayfront | West Don Lands | Total Mar 31, 2016 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| *Direct project costs:* | | | | | | |
| Transfer payments and grants | 11,477,800 | - | - | 36,493 | 42,709 | 11,557,002 |
| Project planning and implementation costs | 1,654,081 | 3,831,477 | 1,653,172 | 3,567,102 | 266,568 | 10,972,400 |
| Amortization | - | - | - | 1,246,117 | - | 1,246,117 |
| Project management - salaries, fees and benefits | 232,481 | 1,076,552 | 740,518 | 1,505,528 | 526,056 | 4,081,135 |
| Less Project management - salaries, fees and benefits related to assets under development (Note 6) | - | - | (466,518) | (1,483,073) | (353,409) | (2,303,000) |
| | 13,364,362 | 4,908,029 | 1,927,172 | 4,872,167 | 481,924 | 25,553,654 |
| *General expenses:* | | | | | | |
| Salaries, fees and benefits | 276,233 | 1,279,156 | 879,881 | 1,788,864 | 625,058 | 4,849,193 |
| General and office administration | 133,884 | 619,979 | 426,459 | 867,023 | 302,952 | 2,350,297 |
| Communications, marketing and government relations | 37,639 | 174,295 | 119,891 | 243,747 | 85,169 | 660,741 |
| Information Technology | 18,677 | 86,487 | 59,491 | 120,950 | 42,262 | 327,867 |
| Amortization | 12,112 | 56,088 | 38,580 | 78,437 | 27,407 | 212,624 |
| | 478,545 | 2,216,005 | 1,524,303 | 3,099,021 | 1,082,848 | 8,400,722 |
| Less general & support costs allocated to assets under development (Note 6) | - | - | (219,447) | (2,944,330) | (701,008) | (3,864,785) |
| | **13,842,907** | **7,124,034** | **3,232,028** | **5,026,858** | **863,764** | **30,089,591** |

## Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2017

### 15. Commitments

The Corporation has corporate lease commitments of $ 2,517,043 until March 31, 2023.

### 16. Risk disclosures

(i) **Credit risk:**
Credit risk arises from cash, short term investments, restricted cash and 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.

(ii) **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.

(iii) **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. At March 31, 2017 had prevailing interest rates raised or lowered by 1% with all other variables held constant excess revenues over expenses would have increased or decreased by $84,098 (2016 - $173,891).

### 17. Net other operating income

| | **March 31, 2017** | March 31, 2016 |
|---|---|---|
| | **$** | $ |
| Rental, parking and other income | **4,450,962** | 4,571,985 |
| Less: operating expenses | **(3,125,628)** | (3,713,790) |
| | **1,325,334** | 858,195 |
| Interest | **506,835** | 452,311 |
| Other Income | **316,766** | - |
| Net other operating income | **2,148,935** | 1,310,505 |

# Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2017

## 18. Net gain on sale of land and parking facility

Gain on sales consists of sale of the parking facility at 51 Dockside Drive and sale of land in East Bayfront.

| | **March 31, 2017** | March 31, 2016 |
|---|---|---|
| | **$** | $ |
| Sale of parking facility: | | |
| Proceeds from sale | **11,687,382** | - |
| Less: Net book value | **(15,679,992)** | - |
| Less: Costs associated with the sale | **(381,047)** | - |
| Loss on sale of parking facility | **(4,373,657)** | - |
| Sale of East Bayfront land | **7,700,000** | - |
| Net gain on sale of land and parking facility | **3,326,343** | - |

## 19. Trust under administration

In February of 2016, the Corporation became the administrator of the Project Under Gardiner fund (The Bentway). Based on the Memorandum of Understanding dated December 22, 2015, the total cost of the Project Under Gardiner is expected to total $25,000,000, of which $23,500,000 will flow to the Corporation to be used towards the execution of the project. Up until March 31, 2017 the Corporation has received $20,500,000.

During the fiscal year ended March 31, 2017, the total cost to the Corporation for management of the Project Under Gardiner was $398,382 in direct payroll charges, of which $180,000 was charged to the fund (see project management fees below), the balance of $218,382 being in-kind contributions.

The trust is entitled to any interest earned on the balance of funds. A summary of the trust's financial position, as at March 31, 2017, is as follows:

| **Financial Position as at March 31, 2017** | **March 31, 2017** | March 31, 2016 |
|---|---|---|
| | **$** | $ |
| Cash and accounts receivable | **17,405,555** | 2,961,429 |
| Assets under development | **3,371,952** | 619,596 |
| Total assets | **20,777,507** | 3,581,025 |
| Accounts payable and accrued liabilities | **(250,816)** | (578,752) |
| Net assets | **20,526,691** | 3,002,273 |

| **Expenditures as of March 31, 2017** | **March 31, 2017** | February 17 to 31-Mar-16 |
|---|---|---|
| **Direct Project Costs** | **$** | $ |
| Planning and implementation | **2,452,678** | 524,661 |
| Public consultation and marketing | **119,678** | 49,934 |
| Project management fees | **180,000** | 45,000 |
| Total expenditures | **2,752,356** | 619,596 |
| Cumulative expenditure (from inception of trust) | **3,371,952** | 619,596 |

## Toronto Waterfront Revitalization Corporation

Notes to the financial statements

March 31, 2017

### 20. 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.

### 21. Comparatives

Certain comparative amounts have been reclassified to conform with the current year's method of presentation.