

**Financial Services Regulatory
Authority of Ontario**

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**Office ontarien de réglementation des
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Management's Responsibility for Financial Statements

The accompanying financial statements have been prepared by management accordance with Canadian public sector accounting standards and are the responsibility of management. The preparation of the financial statements necessarily involves the use of estimates based on management's judgment, particularly when transaction affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to May 23, 2019.

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.

Financial Services Regulatory Authority of Ontario's Board of Directors is responsibility for ensuring that management fulfils its responsibilities. The Board has appointed an audit and finance committee from among its own members. The audit and finance committee meets periodically with senior management and the Office of the Auditor General of Ontario to discuss audit, internal control, accounting policy, and financial reporting matters. The financial statements are reviewed by the audit and finance committee before approval by the Board of Directors.

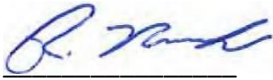
The Office of the Auditor General of Ontario conducts an annual audit in accordance with subsection 14(l) of Ontario Regulation 672/00 of the *Development Corporations Act*. The auditor's report outlines the scope of the auditor's examination and opinion.

A handwritten signature in blue ink, appearing to read 'Mark White', written over a horizontal line.

Mark White
Chief Executive Officer



Stephen Power
EVP- Corporate Services



Randy Nanek
Chief Financial Officer



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

Independent Auditor's Report

To the Financial Services Regulatory Authority of Ontario

Opinion

I have audited the financial statements of the Financial Services Regulatory Authority of Ontario (the Authority), which comprise the statement of financial position as at March 31, 2019, and the statements of operations, changes in net debt, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2019 and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Toronto, Ontario
May 23, 2019



Bonnie Lysyk, MBA, FCPA, FCA, LPA
Auditor General

Financial Services Regulatory Authority of Ontario

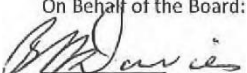

STATEMENT OF FINANCIAL POSITION
[In thousands of dollars]

As at March 31

	2019 \$	2018 (note 1)
Assets		
Current		
Cash	22,334	15,041
HST Recoverable	623	178
Accounts Receivable	52	6
<u>Prepaid Expenses</u>	<u>1,418</u>	<u>39</u>
Total Current Assets	24,427	15,264
Capital Assets, net (notes 2(b) and 3)	1,822	0
Total Assets	26,249	15,264
Liabilities and Net Debt		
Current		
Accounts Payable and Accrued Liabilities	3,225	633
<u>Deferred Revenue (note 4)</u>	<u>413</u>	<u>0</u>
Total Current Liabilities	3,638	633
Loan Payable (notes 5 and 10(b)(i))	40,000	17,388
<u>Interest Payable (notes 5 and 10(b)(i))</u>	<u>407</u>	<u>29</u>
Total Liabilities	44,045	18,050
Net Debt	(17,796)	(2,786)
Total Liabilities and Net Debt	26,249	15,264

See accompanying notes

On Behalf of the Board:

Chair

Board Member

Financial Services Regulatory Authority of Ontario

STATEMENT OF OPERATIONS and CHANGES IN NET DEBT
[In thousands of dollars]

	March 31, 2019 \$	9 months ended March 31, 2018 \$ (note 1 and 13)
Revenue (note 6)		
Lease expense Recovery (note 10(b)(iv))	3,901	0
Interest income	251	23
Total Revenue	4,152	23
Expenses		
Salaries and wages (notes 7 and 10)	7,099	904
Employee benefits (note 12)	549	35
Transportation and Communications	22	0
Services (note 8)	11,089	1,841
Supplies	25	0
Interest expense (notes 10(b)(i))	378	29
Total Expenses	19,162	2,809
Deficiency of revenue over expenses	(15,010)	(2,786)
Net Debt, beginning of year	(2,786)	0
Net Debt, end of year	(17,796)	(2,786)

See accompanying notes

Financial Services Regulatory Authority of Ontario

STATEMENT OF CASH FLOWS
[In thousands of dollars]

	March 31, 2019 \$	9 months ended March 31, 2018 \$ (note 1)
Operating activities		
Deficiency of revenue over expenses for the year	(15,010)	(2,786)
Changes in non-cash operating items		
Increase in prepaid expenses	(1,379)	(39)
Increase in HST receivable	(445)	(178)
Increase in accounts receivable	(46)	(6)
Increase in interest payable	378	29
Increase in accounts payable and accrued liabilities	2,592	633
Increase in deferred revenue	413	0
Cash (used in) operating activities	(13,497)	(2,347)
Capital activities		
Purchase of capital assets (note 3)	(1,822)	0
Cash used in capital activities	(1,822)	0
Financing activities		
Loan advances (note 10(b)(i))	22,612	17,388
Cash provided by financing activities	22,612	17,388
Net increase in cash during the year	7,293	15,041
Cash, beginning of year	15,041	0
Cash, end of year	22,334	15,041

See accompanying notes

NOTES TO FINANCIAL STATEMENTS
[In thousands of dollars]

March 31, 2019

1. DESCRIPTION OF THE ORGANIZATION

The Financial Services Regulatory Authority of Ontario ["FSRA"] was established under *the Financial Services Regulatory Authority of Ontario Act, 2016* as a corporation without share capital. The objects of FSRA are set out in Section 3 of the *Financial Services Regulatory Authority Act of Ontario, (2016)* and include, amongst other things, to regulate and generally supervise the regulated sectors.

The FSRA was incorporated effective June 29, 2017. These financial statements include results of operations of the FSRA from June 30, 2017 (commencement of operations).

The fiscal year ending March 31, 2018 was the FSRA's inaugural year of operation.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management of the FSRA in accordance with Public Sector Accounting Standards for government not-for-profit organizations (PSA-GNFPO) as issued by the Public Sector Accounting Board (PSAB). FSRA has chosen to use the standards for not-for-profit organizations that include the 4200 series sections. The significant accounting policies used to prepare these statements are summarized below.

(a) Revenue Recognition

Revenue recognition methods will be fully established once FSRA has developed and received Minister of Finance approval of its fee rules. The implementation of its fee rules is expected in the spring of 2019.

FSRA follows the deferral method of accounting for revenues.

- a) Funding received from the Province in support of office lease payments are recorded as revenue in the period to which it relates. Funding approved but not yet received at the end of an accounting period is accrued. Where a portion of the funding is related to a future period, it is deferred and recognized in a subsequent period when the related expense occurs.
- b) Interest income is recognized in the period in which it is earned.

(b) Capital Assets

Capital assets are recorded at cost, less accumulated amortization and accumulated impairment losses, if any. Third party and internal labour costs are capitalized under software in connection with the development of information technology projects. Amortization is provided on a straight-line basis based upon the estimated useful lives of the assets as follows:

Office furniture and equipment	5 years
Leasehold improvements	over the term of the lease
Software	5 years
Computer hardware	3 to 10 years

(c) Financial Instruments

All financial instruments are included on the statement of financial position and are measured either at fair value or at cost or amortized cost. The FSRA's accounts receivable, accounts payable and accrued liabilities and loan payable are recorded at cost in its financial statements.

Cash is comprised of cash on hand, and balances within banks.

(d) Use of Estimates

Management can make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual amounts could differ from these estimates. Significant items subject to estimates include accrued liabilities.

3. CAPITAL ASSETS

Capital assets consist of the following:

	2019		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer hardware	<u>1,822</u>	0	<u>1,822</u>

4. DEFERRED REVENUE AND PREPAID EXPENSES

Deferred revenue consists of the April 2019 lease costs paid to FSRA from the Province. This amount is also included in prepaid expenses for 5160 Yonge Street lease.

5. LOAN AGREEMENT

On August 29, 2017, the FSRA entered into a non-revolving Loan Agreement with Her Majesty the Queen in the right of Ontario as represented by the Minister of Finance to borrow up to \$20 million for covering initial administrative and operational costs related to its start-up activities.

The Loan Agreement permitted the FSRA to draw advances (Advance Period End Date) until March 31, 2018. All amounts plus interest drawn under the Loan Agreement is due on April 1, 2019 (Maturity Date), unless otherwise agreed to by both parties.

Interest expense on advances is calculated at the annual interest rate equal to the ninety-day Ontario Treasury Bill Rate as of each quarterly interest reset date, plus 0.25 percent. The average interest rate during the year was 1.85%.

On March 31, 2018, the Loan Agreement was amended (Amending Agreement) to:

- increase the amount of the non-revolving Loan Agreement up to \$40 million,
- amend the Advance Period End Date to March 31, 2019,
- amend the Maturity Date to April 1, 2020, and
- acknowledge that amendments will be required to convert the non-revolving loan facility into a long-term loan facility.

There was no change in the basis of the interest expense calculation between the Agreements.

As at March 31, 2019, the FSRA borrowed \$40.0 million (2018 - \$17.4 million). Interest expense in the year amounted to \$378 (2018 - \$29)

6. REVENUE

Under the *Financial Services Regulatory Authority of Ontario Act, 2016 (Act)*, the FSRA may make rules in respect of any matter over which the Act gives authority in respect of fees, sector assessments and other charges (Fees).

The implementation of the Fee Rule is anticipated in spring 2019.

7. DIRECTOR'S REMUNERATION

The Agencies & Appointments Directive requires the disclosure of remuneration paid to directors. For the year ended March 31, 2019, director's remuneration amounted to approximately \$442 (2018-\$350). The Board of Directors are part-time appointees and the amounts paid to the Directors are established in an Order in Council. The Board of Directors continued to take a more active role in FSRA's activities as the organization prepared for a spring 2019 operational launch date. During the year, the number of board members increased from three to seven.

8. SERVICES

	<u>2019</u>	<u>2018</u>
Accommodation (note 10(b)(iv))	\$ 4,333	\$ 215
Software implementation charges	2,995	0
Consultants and Advisors	2,084	1,379
Software subscriptions and related IT charges	829	0
Legal	777	247
Miscellaneous	<u>71</u>	<u>0</u>
Total	<u>\$11,089</u>	<u>\$1,841</u>

9. FINANCIAL INSTRUMENTS

Interest rate risk:

Financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature.

Liquidity risk:

Exposure to liquidity risk is minimal as the FSRA has sufficient cash to settle all current liabilities.

10. RELATED PARTY TRANSACTIONS

(a) Metrolinx (an Ontario Crown Agency)

During the course of the year, the FSRA entered into a sub-lease agreement with Metrolinx. The FSRA paid Metrolinx \$386 (2018-\$215) related to rent and common area costs.

(b) The Province of Ontario

During the course of the year, the FSRA entered into the following transactions with the Province of Ontario:

- (i) Borrowed \$22.6 million (2018- \$17.4 million) against the \$40 million Loan Agreement with the Ministry of Finance to cover initial administrative and operational costs. FSRA incurred loan interest of \$378 (2018- \$29).
- (ii) Seconded employees from the Province to support its start -up activities. During the year, the FSRA reimbursed the Province \$895 (2018-\$218) related to salary and benefit costs.
- (iii) Co-location, connectivity and related charges in support of information technology services at the Guelph Data Centre and IT user per seat costs. FSRA reimbursed the Province \$544 (2018- nil) for these services.

(iv) Received funding from the Province in support of the lease payment for 5160 Yonge Street. On July 1, 2018, FSRA assumed the lease for these premises from the Financial Services Commission of Ontario. The Province funded FSRA \$3,901 related to the lease.

(c) Infrastructure Ontario (an Ontario Crown Agency)
During the course of the year, FSRA paid Infrastructure Ontario \$33 (2018 – nil) for leasing options analysis.

11. COMMITMENTS AND CONTINGENCIES

The minimum annual payments for office lease space, software and implementation agreements and information technology services are estimated as follows for the years ending March 31:

	\$
2020	7,331
2021	4,346
2022	1,366
2023	644
2024	268

12. PENSION BENEFITS

Certain employees of FSRA are members of the Ontario Pension Board (OPB) pension plan, which is a defined benefit pension plan for employees of the Province and many provincial agencies. The pension plan is accounted for as a defined contribution plan. FSRA's contributions in the year to OPB amounted to \$109 and are included as expenses in the statement of operations and changes in net debt.

13. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform to the current year's presentation.

14. SUBSEQUENT EVENTS

(a) Premises Lease

Subsequent to the year- end, FSRA entered into a conditional lease agreement for space at 25 Sheppard Avenue West to replace its offices from 5160 Yonge Street. The conditional lease agreement commences on November 1, 2020 for an initial term of 10 years, with two five- year renewal options. Annual average lease payments during the initial term of the lease, including operating expenses and taxes are approximately \$4,800,000.

The lease agreement condition is for a 90 day period following the mutual execution of the lease to allow FSRA to apply to the Ministry of Finance or other designated Ministry or authority, for any required approvals in connection with the lease. Both parties have not yet executed the lease agreement.

(b) Loan Agreement

Subsequent to the year-end, the March 31, 2018 Amending Agreement (note 5) was amended by:

- Increasing the maximum amount of the loan from \$40 million to \$60 million through a series of loan facilities as follows:
 - Facility 1 - \$40 million, as per the Amending Agreement and was fully drawn as at March 31, 2019
 - Facility 2 - \$12.5 million and is available for fiscal 2019-2020
 - Facility 3 - \$4.5 million and is available for fiscal 2020-2021
 - Facility 4 – 3.0 million and is available for fiscal 2021-2022
- changing the maturity date from April 1, 2020 to repayment terms, by facility, ranging from 18 to 20 years, with Facility 1 repayment commencing in the spring 2019,
- changing the interest rate from ninety-day Ontario Treasury Bill Rate, plus 0.25 percent to Province of Ontario floating rate cost of funds, plus 0.50 percent, and
- extending the purpose of the loan to include initial administrative set up costs and transition and capital investment costs.

Facility loan repayments are made quarterly.