Chapter 2

Public Accounts of the Province

Introduction

Ontario's Public Accounts for each fiscal year ending on March 31 are prepared under the direction of the Minister of Finance, as required by the *Financial Administration Act* (Act). The Public Accounts comprise the province's annual report, including the province's consolidated financial statements, and three supplementary volumes of additional financial information.

The government's responsibility for preparing the consolidated financial statements encompasses ensuring that the information, including the many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that a system of control, with supporting procedures, is in place to provide assurance that transactions are authorized, assets are safeguarded, and proper records are maintained.

My Office audits these consolidated financial statements. The objective of our audit is to obtain reasonable assurance that the statements are free of material misstatement—that is, free of significant errors or omissions. The consolidated financial statements, along with my Independent Auditor's Report on them, are included in the province's annual report.

The province's 2010/11 annual report also contains a Financial Statement Discussion and Analysis section that provides additional information about the province's financial condition and fiscal results for the year ended March 31, 2011, including some details of what the government accomplished in the 2010/11 fiscal year. The provision of such information enhances the fiscal accountability of the government to both the Legislative Assembly and the public.

The three supplementary volumes of the Public Accounts consist of the following:

- Volume 1—statements from all ministries and a number of schedules providing details of the province's revenues and expenses, its debts and other liabilities, its loans and investments, and other financial information;
- Volume 2—audited financial statements of significant provincial corporations, boards, and commissions whose activities are included in the province's consolidated financial statements, as well as other miscellaneous financial statements; and
- Volume 3—detailed schedules of ministry payments to vendors and transfer-payment recipients.

My Office reviews the information in the province's annual report and in Volumes 1 and 2 of the Public Accounts for consistency with the information presented in the province's consolidated financial statements.

The Act requires that, except in extraordinary circumstances, the government deliver its annual report to the Lieutenant Governor in Council within 180 days of the end of the fiscal year. The three

supplementary volumes must be submitted to the Lieutenant Governor in Council within 240 days of the end of the fiscal year. Upon receiving these documents, the Lieutenant Governor in Council must lay them before the Legislative Assembly or, if the Assembly is not in session, make the information public and then lay it before the Assembly within 10 days of the time it resumes sitting.

This year, the government released the province's 2010/11 Annual Report and Consolidated Financial Statements, along with the three Public Accounts supplementary volumes, on August 23, 2011, meeting the 180-day deadline.

In conducting our annual audit of the Public Accounts we work closely with the Ministry of Finance and particularly with the Office of the Provincial Controller. While we may not always see eye-to-eye on all issues, our working relationship has always been professional and constructive.

The Province's 2010/11 Consolidated Financial Statements

The *Auditor General Act* requires that I report annually on the results of my examination of the province's consolidated financial statements. I am pleased to report that my Independent Auditor's Report to the Legislative Assembly on the province's consolidated financial statements for the year ended on March 31, 2011, is clear of any qualifications and reservations, and reads as follows:

> *Independent Auditor's Report*
>
> To the Legislative Assembly of the Province of Ontario
>
> I have audited the accompanying consolidated financial statements of the Province of Ontario, which comprise the consolidated statement of financial position as at March 31, 2011, and the consolidated statements of operations, change in net debt, change in accumulated deficit, and cash flow for the year then ended and a summary of significant accounting policies and other explanatory information.
>
> *Management's Responsibility for the Consolidated Financial Statements*
> The Government of Ontario 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 the Government 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 the Government, 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 opinion.

Opinion
In my opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Province of Ontario as at March 31, 2011 and the consolidated results of its operations, change in its net debt, change in its accumulated deficit, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[signed]

Jim McCarter, FCA
Toronto, Ontario Auditor General
August 8, 2011 Licensed Public Accountant

As a result of new Canadian Auditing Standards that came into effect in December 2010, my report this year differs from those of previous years. The following are some of the key changes in this year's report that reflect the requirements of the new standards.

- *Title*—the title of the report now includes "independent" to clearly convey to readers the auditor's independence;
- *Paragraph on Management's responsibility*—the report now includes a separate paragraph that describes the government's responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable accounting standards, and its responsibility for internal control to enable the preparation of financial statements free from material misstatement, whether due to fraud or error; and
- *Paragraph on Auditor's responsibility*—the standards now require a clearer description of the Auditor's responsibility with respect to the audit, including a more detailed description on the process for performing the audit, that the auditor needs sufficient appropriate audit evidence, and that the Auditor is expressing no opinion on the effectiveness of internal control.

Ontario's Debt Burden

Government debt has become a worldwide economic issue, especially since the global recession of 2008 that saw governments around the world incur large deficits to pay for stimulus programs to combat the effects of the recession.

Ontario has not been immune to the recession, with the government reporting large deficits in each of the last three fiscal years. The government is also projecting shortfalls for the next six years, as illustrated in Figure 1.

The government's projections indicate that by the time Ontario revenues are sufficient to meet its expenses in the 2017/18 fiscal year, the combined annual deficits from 2008/09 to 2016/17 will total almost $110 billion. The government will need to issue new debt to finance these projected annual deficits, which will increase Ontario's current debt load significantly before it is able to balance its books in six years' time.

In this section, we first highlight the different measures of government debt—that is, the different ways government debt can be looked at. We then compare the province's growing debt to the strength of the provincial economy, and to the debt burden of other governments for perspective.

Figure 1: Ontario Revenue and Expenses, 2008/09–2017/18 ($ billion)

Source of data: 2010/11 Province of Ontario Consolidated Financial Statements and 2011 Ontario Budget

	Actual			Plan Medium-term Outlook			Extended Outlook			
	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Total Revenue	**96.9**	**95.8**	**106.7**	**108.5**	**111.8**	**117.0**	**122.8**	**129.0**	**135.4**	**142.2**
Expense										
program expense	94.8	106.4	111.2	113.8	114.6	116.7	118.8	121.0	122.9	124.9
interest on debt	8.5	8.7	9.5	10.3	11.4	12.6	13.7	14.8	15.7	16.3
Total Expense	**103.3**	**115.1**	**120.7**	**124.1**	**126.0**	**129.3**	**132.5**	**135.8**	**138.6**	**141.2**
reserve	–	–	–	0.7	1.0	1.0	1.0	1.0	1.0	1.0
Surplus/(Deficit)	**(6.4)**	**(19.3)**	**(14.0)**	**(16.3)**	**(15.2)**	**(13.3)**	**(10.7)**	**(7.8)**	**(4.2)**	**–**

Finally, we highlight some of the consequences to the province as a result of carrying a significant debt load.

DIFFERENT MEASURES OF DEBT

The government's debt can be measured in a number of ways. Figure 2 provides details on the debt over the last four fiscal years as reported in the province's consolidated financial statements, along with projections over the next three fiscal years as reported in the 2011 Budget.

Definitions of the province's three measures of debt in Figure 2 are as follows:

- *Total debt* represents the total amount of money the government owes to outsiders and consists of bonds issued in public capital markets, non-public debt, T-bills, and U.S. commercial paper. It provides the broadest measure of a government's debt load and its total borrowings to date.
- *Net debt* is the difference between the government's total liabilities and its financial assets. Liabilities consist of all amounts the government owes to external parties, including total debt, accounts payable, pension and retirement obligations, and transfer payment obligations. Financial assets are those that can be used to pay off liabilities or finance future operations, and include cash, accounts receivable, temporary investments, and investments in government business enterprises. Net debt provides a measure of the amount of future revenues required to pay for past government transactions and events.
- *Accumulated deficit* represents the sum of all past government annual deficits and surpluses. It is derived by taking net debt and deducting the value of the government's non-financial assets, such as its tangible capital assets.

Net debt is generally considered to be a useful indicator of a government's financial position and one that provides insight into how well a government can afford to provide future services. A significant net-debt position reduces the ability of a government to devote financial resources and future revenues to the provision of public services. The Canadian Institute of Chartered Accountants publication entitled *20 Questions about Government Financial Reporting* notes that net debt is an important measure of a government's fiscal capacity.

The government, on the other hand, considers the accumulated deficit to be a better measure for evaluating its financial position and its capacity to deliver future services, because the accumulated deficit takes into account the acquisition of non-financial assets, such as tangible capital assets, using debt. Under the *Fiscal Transparency and Accountability Act, 2004* (FTAA) the government is required to maintain a prudent ratio of provincial debt (defined in the FTAA as the accumulated deficit) to Ontario's gross domestic product, which is discussed in more detail in the next section.

Figure 2: Total Debt, Net Debt, and Accumulated Deficit, 2007/08–2013/14 ($ million)

Source of data: 2010/11 Province of Ontario Consolidated Financial Statements, 2011 Ontario Budget, and Office of the Auditor General of Ontario

	Actual				Estimate		
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
total debt	162,217	176,915	212,122	236,629	254,800	279,200	299,900
net debt	156,616	169,585	193,589	214,511	238,300	261,700	281,700
accumulated deficit	105,617	113,238	130,957	144,573	160,800	176,000	189,300

MAIN CONTRIBUTORS TO NET-DEBT GROWTH

For the most part, the province's growing net debt since the 2007/08 fiscal year is attributable to large deficits in recent years, along with investments in capital assets such as buildings, other infrastructure, and machinery and equipment acquired directly by the government or its consolidated organizations, such as public hospitals, as illustrated in Figure 3.

While the government has not provided details on its debt beyond the 2013/14 fiscal year, we estimate that Ontario's net debt could surpass $300 billion by the 2017/18 fiscal year, based on the government's deficit projections in the 2011 Budget and assuming government investments in capital assets continue at the levels of recent years.

In summary, Ontario's net debt will increase from $157 billion at the end of the 2007/08 fiscal year to over $300 billion by 2017/18, in effect almost doubling in the 10-year period before the government projects it will be able to bring its books back into balance. Accordingly, the amount of debt owed by each resident of Ontario on behalf of the government will increase from about $12,000 per person in 2008 to about $21,000 per person in 2018.

ONTARIO'S RATIO OF NET DEBT TO GDP

The level of debt relative to the size of the economy—the ratio of debt to the market value of all goods and services produced over a defined period, called the gross domestic product (GDP)—is generally considered to be a good indicator of a government's ability to manage its debt load. The ratio of net debt to GDP measures the relationship between a government's obligations and its capacity to raise funds to meet them. When the ratio is rising, it means that the government's net debt is growing at a faster rate than the provincial economy.

Figure 3: Net Debt Growth Factors, 2007/08–2013/14 ($ million)

Source of data: 2010/11 Province of Ontario Consolidated Financial Statements, 2011 Ontario Budget, and Office of the Auditor General of Ontario

	Net Debt Beginning of Year	Deficit/ (Surplus)	Net Investment in Tangible Capital Assets[1]	Miscellaneous Adjustments[2]	Net Debt End of Year
2007/08	153,742	(600)	4,033	(559)	156,616
2008/09	156,616	6,409	5,348	1,212	169,585
2009/10	169,585	19,262	5,832	(1,090)	193,589
2010/11	193,589	14,011	7,306	(395)	214,511
2011/12	214,511	16,300	7,489	–	238,300
2012/13	238,300	15,200	8,200	–	261,700
2013/14	261,700	13,300	6,700	–	281,700

1. Includes investments in government-owned land, buildings, machinery and equipment, and infrastructure assets capitalized during the year less annual amortization and net gains reported on sale of government-owned tangible capital assets.
2. Unrealized Fair Value Losses/(Gains) on the Ontario Nuclear Funds Agreement (ONFA) Funds held by Ontario Power Generation Inc.

The province's net debt-to-GDP ratio was relatively stable between the 2005/06 and 2007/08 fiscal years, averaging about 30% at each fiscal year-end, as illustrated in Figure 4. The ratio then began to increase in 2008/09 and is projected to peak at 40% in 2014/15 before starting to fall.

The net debt-to-GDP ratio shows that government debt will grow at a faster rate than the provincial economy until the 2014/15 fiscal year and will begin to fall only in 2015/16, when the rate of expected government debt growth will fall below the expected growth rate of the provincial economy.

Another useful exercise in assessing Ontario's debt load is to compare it with other Canadian jurisdictions. The net debt of most provinces and the federal government, along with their respective ratios of net debt to GDP, is illustrated in Figure 5.

Generally, the western provinces have a significantly lower net debt-to-GDP ratio than Ontario, while the Maritime provinces are roughly similar to Ontario and Quebec has a significantly higher ratio than Ontario.

Ontario's net debt-to-GDP ratio is lower than that of the United States and several European countries that also carry significant debt loads, as illustrated in Figure 6. Although caution is warranted because there may be differences in how these countries define liabilities and financial assets relative to Ontario, the information does provide a useful level of comparison.

Figure 4: Ontario Net Debt-to-GDP Ratio, 2005/06–2017/18 (%)

Source of data: 2010/11 Province of Ontario Annual Report and Consolidated Financial Statements

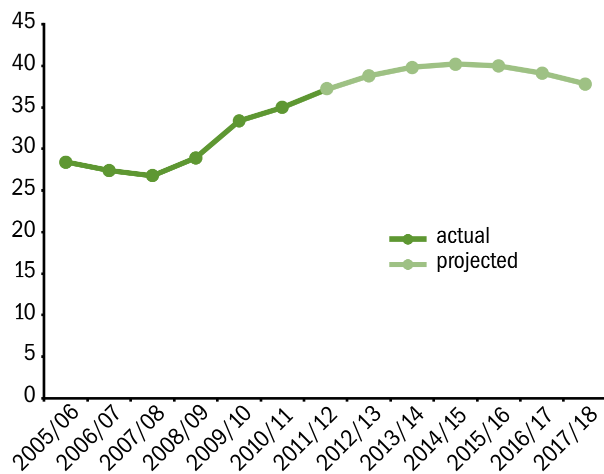


Figure 5: Net Debt and the Net Debt-to-GDP Ratios of Canadian Jurisdictions, 2010/11

Source of data: 2010/11 Province of Ontario Annual Report and Consolidated Financial Statements, 2011 Federal Budget, budget updates and 2011 budgets of selected provincial jurisdictions, and Office of the Auditor General of Ontario

	Net Debt/(Net Asset) ($ million)	Net Debt to GDP (%)
BC	30,637	15.2
AB	(21,653)	(7.4)
SK	3,783	6.2
MB	12,837	24.0
ON	214,500	34.9
QC	158,955	50.1
NB	9,480	33.2
NS	12,837	35.7
PEI	1,695	34.9
Federal	616,900	38.0

CONSEQUENCES OF HIGH INDEBTEDNESS

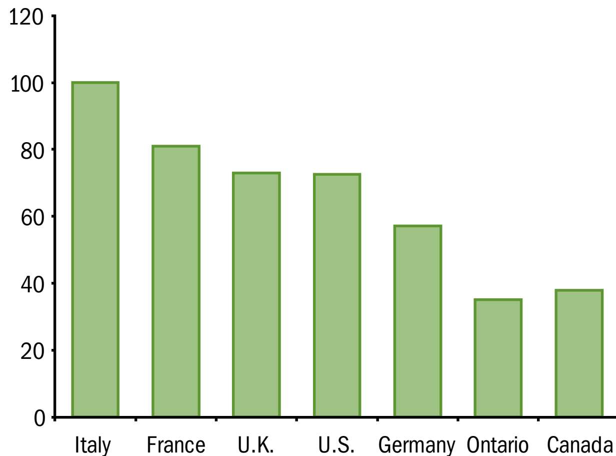
As any householder knows, there are consequences to high levels of indebtedness. The same applies to governments, including the following:

- *Debt Costs Take Funding Away from Other Government Programs*—As provincial indebtedness grows, so does the cash needed to pay the interest costs to service the debt. Higher interest costs consume a greater proportion of government resources, limiting the amount the government can spend on other things. To put this "crowding out" effect into perspective, the government currently spends more on debt interest than it does on post-secondary education, and these interest costs are growing.

  The government's debt-servicing cost in the 2008/09 fiscal year was $8.5 billion and rose to $9.5 billion in 2010/11. It is projected to rise to $16.3 billion by the time the province

Figure 6: Comparison of Net Debt-to-GDP Ratio of Ontario and Selected Industrialized Countries, September 2011 (%)

Source of data: 2010/11 Province of Ontario Annual Report and Consolidated Financial Statements, and Office of the Auditor General of Ontario



balances its books in 2017/18. As a percentage of total provincial revenues, debt-servicing cost will rise from 8.9% in 2010/11 to an estimated 11.5% by 2017/18. In other words, by 2017/18, it is estimated that 11.5 cents of every taxpayer dollar will go towards paying only the annual interest on the debt.

- *Higher Sensitivity to a Rise in Interest Rates*—Over the last few years, governments generally have been able to use low interest rates to finance higher debt loads. For example, Ontario was paying an average effective interest rate of about 8% in 2000, but that had dropped to less than 5% in 2011. However, higher debt levels increase the province's sensitivity to any rate increases. For example, in its 2011 Ontario budget, the government noted that, at its current debt level, a 1% increase in rates would add an additional $500 million to its interest costs.
- *Credit Ratings and Investor Sentiment*—Credit-rating agencies assess a government's creditworthiness largely based on its capacity to manage its debt, and they consider such factors as that government's economic resources, institutional strengths, financial health, and susceptibility to major risks. This rating has an impact on the cost of future government borrowings because, generally speaking, a lower credit rating means investors will demand a greater risk premium in the form of higher interest rates before they are willing to purchase that jurisdiction's debt.

  With respect to Ontario's credit rating, one TD Canada Trust banking analyst noted in March 2011 that "there is little evidence that bond investors are getting nervous about Ontario's fiscal situation or that rating agencies will be downgrading Ontario from its longstanding AA-rating." However, analysts also warn that the government's large borrowing requirements, along with its increasing reliance on foreign investors, does raise the risk of a credit-rating downgrade. Any such change in the credit rating would force Ontario to pay higher interest on its future borrowings.

CONCLUSION

A government's debt has been described as a burden placed on future generations, especially debt used to finance operating deficits. Debt used to finance infrastructure investments is more likely to leave behind investments that future generations can benefit from.

It is important to note that while the government has presented a plan to eliminate the annual deficit by 2017/18, no clear strategy or forecast has been articulated for paying down its existing and future debt.

Once annual deficits are no longer the norm, one strategy for paying down debt is to hold the line on any future debt increases and use the additional revenues generated by a growing economy to start to reduce the debt. In any case, regardless of what strategy is contemplated, we believe the government should provide legislators and the public with long-term targets and a strategy for how it plans to address the current and projected debt burden.

Update on the Workplace Safety and Insurance Board

In our *2009 Annual Report*, we suggested that the government reconsider the exclusion from the province's consolidated financial statements of the financial results of the Workplace Safety and Insurance Board (WSIB). The exclusion of the WSIB's financial results is based on its classification by the government as a "trust." However, given its significant unfunded liability and other factors, we questioned whether the WSIB was operating like a true trust for financial-statement purposes as prescribed by accounting standards of the Public Sector Accounting Board.

The WSIB's unfunded liability as of December 31, 2008, totalled $11.5 billion. It had grown to $11.8 billion as of December 31, 2009, and to $12.4 billion by December 31, 2010. This compares to an unfunded liability of $5.9 billion in 2006. If the WSIB had been included in the government reporting entity for the 2010/11 fiscal year, Ontario's deficit would have been approximately $330 million higher than reported, and the province's net debt and accumulated deficit would have increased by almost 5% and more than 7%, respectively. Clearly, the inclusion of the WSIB in the province's financial statements would have a material impact on the province's consolidated financial statements.

In Chapter 4 of this Annual Report, we follow up our 2009 review of the WSIB's unfunded liability and provide an update on actions taken by the WSIB and the government following our 2009 review. According to information we received from the WSIB and the Ministry of Labour, and discussions we had with senior WSIB management, a number of initiatives are under way to address its unfunded-liability situation. For instance, the WSIB launched an independent funding review, led by an external academic, that is seeking advice from the various stakeholders on how best to address the unfunded-liability situation. As well, legislation has been passed that, subject to proclamation, would require that the WSIB reach a prescribed level of funding within a specified time frame. The funding and time frame are to be established by regulation that will take the results of the current independent funding review into consideration.

As a result of these initiatives to address WSIB's unfunded liability, we agree for the time being with the government that the WSIB can retain its "trust" status. However, we will continue to monitor the progress being made toward addressing the significant unfunded liability and, if we believe it is insufficient, we will re-evaluate our position.

Update on the Pension Benefit Guarantee Fund

The Pension Benefit Guarantee Fund (PBGF) guarantees the payment of certain pension benefits when eligible private-sector defined-benefit plans are terminated under conditions specified in the *Pension Benefits Act* (Act). Under the Act, the PBGF is funded through premiums paid by private-sector pension plan sponsors. Participation in the PBGF is mandatory for many defined-benefit plans registered in Ontario. The PBGF is intended to be self-financing, with funding in the form of annual payments based on per-member and risk-related fees.

As with the WSIB, the PBGF is classified as a trust in the province's consolidated financial statements. This means its assets, liabilities, and operating results are excluded from the accounts of the province, but must be disclosed in the notes to the province's consolidated financial statements.

Recent corporate insolvencies and bankruptcies arising from the economic downturn and other factors have led to greater claims on the PBGF. As a result, the PBGF reported unfunded liabilities of $102 million as of March 31, 2008, and $47 million as of March 31, 2009, as shown in Figure 7. These

Figure 7: PBGF Financial Position, 2007/08–2010/11 ($ million)
Source of data: PBGF

	2007/08	2008/09	2009/10	2010/11
revenue	75,169	123,974	555,806[1]	67,105
expenses[2]	64,546	69,107	406,641	176,671
recoveries			(1,529)	(42)
excess/(deficiency) of revenue over expenses	**10,623**	**54,867**	**150,694**	**(109,524)**
fund surplus/(deficit) at beginning of year	(112,841)	(102,218)	(47,351)	103,343
fund surplus/(deficit) at end of year	**(102,218)**	**(47,351)**	**103,343**	**(6,181)**

1. Includes a $500-million grant from the province
2. Most relate to claims for pension payments on terminated pension plans

unfunded liabilities existed despite a $330-million interest-free loan from the province in the 2003/04 fiscal year, to be repaid in $11-million annual installments over 30 years.

In 2009, the government amended the *Pension Benefits Act* to clarify that the PBGF is a self-sustaining fund, independent of the government. The amendments allow, but do not require, the government to provide grants or loans to the PBGF. The amended act also emphasized that the PBGF's liabilities are limited to its assets.

On March 25, 2010, the Legislative Assembly approved a $500-million grant to the PBGF to help stabilize its financial position and cover the costs of recent plan windups. As a result of this grant, the PBGF reported a surplus of $103 million as of March 31, 2010. As of March 31, 2011, notwithstanding the previous year's $500-million government cash infusion, it reported an unfunded liability of $6 million as a result of expenses exceeding revenues by $109 million. Therefore, the government's previous infusion has already been fully depleted.

An independent actuary appointed by the government to review the stability and the financial status of the PBGF noted in June 2010 that in the absence of an increase in private-sector member assessments, the Fund would require an upfront reserve (net of current claims as of January 2010) of between $680 million and $1.023 billion to cover expected future claims. The actuary determined that in order to be considered self-sufficient over the long term and cover existing loan repayments and expected future claims plus expenses, the PBGF would require a 450% increase in the employer- and employee-assessment rates to fund benefits at the current maximum coverage level of $1,000 per month per employee.

In August 2010, the government also announced a four-part strategy to further mitigate risks and enhance the sustainability of the PBGF as follows:

- build reserves through the $500 million grant, provided in March 2010;
- raise future PBGF revenues by increasing assessments in 2012;
- reduce the level of risk to the PBGF by extending the eligibility period for covering new plans and benefit improvements from three to five years; and
- reduce the PBGF's exposure by strengthening pension funding rules.

While we acknowledge that the government has taken steps to attempt to place the PBGF on a more stable financial footing, we believe that the PBGF did not meet the criteria to retain its "trust" classification for the 2010/11 fiscal year, given its history of requiring government funding to meet its financial obligations and the actuary's suggestion that this dependency will likely continue in the future. In our opinion, if the government chooses to step in periodically to provide financial resources to this organization, then it does not meet the definition of a "trust," nor the intent of the accounting standard

that allows standalone trusts to be excluded from a government's financial statements.

However, this year we concluded the impact of excluding the PBGF from the government's consolidated financial statements was not significant enough to affect our March 31, 2011, audit opinion. We will continue to recommend that the Ministry of Finance include the PBGF in the province's consolidated statements until such time as there is significant improvement, without government assistance, in the financial position of the PBGF.

MINISTRY RESPONSE

The Ministry appreciates the Auditor General's recognition of the government's four-part strategy to strengthen the sustainability of the PBGF, including measures to increase the fund's revenues and limit its liabilities.

In the Ministry's view, these proposals establish a stable financial basis for the fund, permitting it to maintain its trust status and eliminating the need for consolidation.

Review of the 2011 Pre-Election Report on Ontario's Finances

The *Fiscal Transparency and Accountability Act, 2004* (Act) requires the Minister of Finance to issue a report on Ontario's finances in advance of a provincial election. The purpose of this report is to provide the public with detailed information on the province's estimated future revenues, expenses, and projected surplus or deficit for the next three fiscal years. The Act requires the Auditor General to review the government's report to determine if it is reasonable, and to release a report describing the results of this review.

As a provincial general election had been called for October 6, 2011, the government released its *2011 Pre-Election Report on Ontario's Finances* on April 26, 2011. The fiscal plan on which the pre-election report was based was set out in the 2011 Ontario Budget.

As required by the Act, the report provided information on:

- the macroeconomic forecasts and assumptions used to prepare the government's fiscal plan;
- an estimate of Ontario's revenues and expenses, including estimates of the major components of the revenues and expenses;
- details about the budget reserve required to provide for unexpected adverse changes in revenues and expenses; and
- the ratio of provincial debt to Ontario's gross domestic product.

A key principle of the Act is that Ontario's fiscal policy be based on cautious assumptions. Overall, we concluded that the government based its estimates of revenues and interest on the public debt on prudent and cautious assumptions. However, we concluded that many of the assumptions underlying its estimates for program expenses (that is, expenses excluding interest on the public debt and reserves) were optimistic and aggressive rather than cautious. This was especially the case for public-sector salaries and for health-care costs, which together account for the majority of program expenses.

We cautioned that since the pre-election report is essentially a forecast, actual results will undoubtedly differ from its estimates. Given that many of the assumptions underlying the expense projections are optimistic rather than cautious, there is a heightened risk that actual expenses will be higher than estimated. Unless revenue growth is higher than expected to compensate for higher expenses, annual deficits may also turn out to be higher than planned. In that case, the government will need to consider additional changes in policy or operations to achieve the fiscal targets set out in the 2011 Budget.

Future Public Accounts Issues

THE IMPORTANCE OF PUBLIC-SECTOR ACCOUNTING STANDARDS

In Chapter 2 of my 2008 and 2010 Annual Reports, I discussed the importance of governments adhering to generally accepted accounting standards established by an independent standard-setting body in order to produce credible financial statements and information on which the public can rely.

Accounting standards specify when transactions are to be recognized and how they are to be measured and disclosed in financial statements. In order to be authoritative, accounting standards should be established by a recognized professional standard-setting body through an organized, open, and transparent public process.

In Canada, the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) is the authoritative body that establishes accounting standards for the public sector. PSAB standards represent generally accepted accounting principles for governments in Canada and are a primary source of guidance for public-sector accounting.

PSAB emphasizes "due process" in setting its standards in order to maintain objectivity and ensure that the views of all interested parties are heard and considered. In developing or revising an accounting standard, PSAB typically follows a five-step process:

- basic research;
- approval of a project proposal;
- issuing a statement of principles to a designated group of accountants and non-accountants for initial feedback;
- issuing one or more public exposure drafts and soliciting comments from all interested individuals or organizations; and
- approving and publishing a final standard.

PSAB has been under significant pressure recently from certain stakeholders. Some governments, for instance, have expressed concerns that PSAB standards do not adequately take into account the unique challenges facing governments when they make decisions on financial reporting, budgeting, and fiscal policy. While PSAB must ensure that new accounting standards take all of these concerns into consideration, it is also constrained by the need to ensure such standards are consistent with its conceptual framework.

PSAB's conceptual framework consists of a set of overarching and interrelated objectives, fundamental principles, and definitions that establish how assets, liabilities, revenues, and expenses arise, and how they are to be measured and disclosed. The conceptual framework was designed to help develop accounting standards that will consistently produce financial statements that most fairly reflect the results of an entity's operations and its financial position at the end of a reporting period. Accounting-standard-setting bodies around the world use such conceptual frameworks to ensure that any proposed accounting standards are theoretically sound. PSAB is currently undertaking a review of its conceptual framework, which is discussed later in this chapter.

RECENT PSAB ACHIEVEMENTS

PSAB resolved a number of significant financial accounting and reporting issues in the 2010/11 fiscal year. These include *Government Transfers*, addressed in new standard PS3410, and *Financial Instruments*, addressed in new standard PS3450. Both are discussed below.

One key message we want to convey to readers through this discussion is that the public interest has been well served by PSAB's role in setting independent and conceptually based accounting standards for governments. Since its establishment in 1981 and its gradual acceptance by Canadian governments as the authoritative issuer of public-sector accounting standards, PSAB has contributed

enormously to improving the completeness, relevance, reliability, and comparability of Canadian government financial statements.

We want to acknowledge that the province's consolidated financial statements, in all material respects, have consistently complied with PSAB standards and that all governments over the years have been diligent in their efforts to improve the clarity and completeness of their statements and annual reports. We believe it is critical that Ontario continue to prepare its financial statements in accordance with PSAB standards so that legislators and the public can rely on the reported annual surplus or deficit as being a fair reflection of what has actually transpired with respect to the government's management of the public purse for the year.

RATE-REGULATED ASSETS AND LIABILITIES

Current Situation

Over the last three years, we have raised concerns about the appropriateness of recognizing rate-regulated assets and liabilities in the government's consolidated financial statements. Rate-regulated accounting practices were developed to recognize the unique nature of regulated entities such as electricity generators, transmitters, and distributors. Under rate-regulated accounting, a regulator established under legislation such as the Ontario Energy Board approves the prices that a regulated entity can charge customers and often allows regulated entities to defer (record as an asset) certain costs for recovery in future periods that, under normal generally accepted accounting principles (GAAP), would be expensed in the year incurred.

In Ontario, there are three major provincially owned organizations in the electricity sector—Ontario Power Generation Inc. (OPG), Hydro One Inc. (Hydro One), and the Ontario Power Authority (OPA)—that use rate-regulated accounting. The financial position and operating results of these three organizations are included in the government's consolidated financial statements. The net effect of including the impact of rate-regulated accounting in the 2010/11 fiscal year was to decrease the reported deficit by $23 million. While this year's deficit impact was quite small, the impact can also be quite large, as was the case in the 2009/10 fiscal year, when its net effect was to reduce the reported deficit by $1.1 billion.

Up to now and including the 2010/11 fiscal year, the use of rate-regulated accounting by certain rate-regulated entities was allowed under Canadian GAAP. Specifically, PSAB's accounting standards allowed OPG and Hydro One, which are defined as government business enterprises, to be consolidated without their accounting policies being adjusted to remove the impact of rate-regulated accounting. Given PSAB's position, we accepted this accounting treatment. However, from a theoretical viewpoint, we continued to question whether rate-regulated assets and liabilities met the definition of *bona fide* assets or liabilities for the purposes of the government's consolidated financial statements. In the case of the OPA, which does not meet the PSAB criteria of being a government business enterprise, the impact of rate-regulated accounting on the OPA's results should have been removed before the OPA was included in the consolidated statements. In this case, not making the adjustment did not have a material effect on the province's reported results and therefore did not affect our audit opinion.

Looking Forward

The era of rate-regulated accounting appears to be coming to a close, at least for jurisdictions such as Canada that are converting to international accounting standards. Last year, both the International Accounting Standards Board (IASB) and the CICA's Accounting Standards Board issued exposure drafts that, if approved, would have allowed rate-regulated entities to continue recognizing regulatory assets and liabilities under certain conditions. However, while the recommendations of these exposure drafts were overwhelmingly

supported by the utility industry, the majority of accounting bodies and standards-setters who responded disagreed with the recommendations. Accordingly, the IASB has deferred the current project, and it is unclear if and when any future project on rate-regulated accounting will be initiated. The CICA's Accounting Standards Board recently indicated that it would not consider any "local" amendments to International Financial Reporting Standards (IFRS) to allow for rate-regulated accounting in Canada. Instead, the treatment of all assets and liabilities in future will have to follow normal generally accepted accounting principles, and rate-regulated assets and liabilities will no longer be considered acceptable.

The accounting standard-setter in the United States, the Financial Accounting Standards Board, is not going along with the views of its international counterparts. For now, it has decided not to adopt IFRS, and it will continue to allow rate-regulated accounting.

Ontario's Ministry of Finance contends that the province's rate-regulated assets and liabilities meet PSAB's standards without reference to any of the rate-regulated provisions in the *CICA Handbook*. As the Ministry is aware, we do not agree with this position.

In its March 31, 2011 Annual Report and Consolidated Financial Statements, the government specifically commented on this issue. The note entitled Future Changes to Accounting Standards stated:

> At present, IFRS does not address rate-regulated accounting and it is uncertain if or when such standards might be introduced by the IASB. The government plans to provide direction to certain controlled rate-regulated entities to ensure that the financial reports of these entities follow accounting standards that it believes best represent the economic substance of transactions and best serve the information needs to different users.

We noted that the government has recently directed Hydro One to prepare its future financial statements in accordance with U.S. GAAP through the passage of regulation 395/11 under the *Financial Administration Act*. We want to reiterate that it is not the impact of this decision on Hydro One's financial statements that is our direct concern—rather, we are concerned about what effect these developments may have on the province's consolidated financial statements.

As the auditors of the province's consolidated financial statements, we have concerns about Hydro One's use of U.S. GAAP and about the future disposition of the rate-regulated assets and liabilities of OPG and the OPA. The province uses Canadian GAAP in preparing its statements. If Canadian GAAP does not allow rate-regulated assets and liabilities to be recorded, there may be an issue in next year's audit if such assets and liabilities are nevertheless included in the province's consolidated financial statements due to the consolidation of OPG, Hydro One, and the OPA in those results, and if that inclusion has a material impact.

We are also concerned about the province using legislation to override Canadian GAAP—a theme that we have raised in our last two Annual Reports. This year, the government passed a regulation requiring Hydro One to use U.S. GAAP to allow it to continue to include the impact of rate-regulated activities in its future financial statements. This represents a departure from the historical tradition in Ontario of complying with Canadian accounting standards.

MINISTRY RESPONSE

The Ministry recognizes the challenges in the accounting-standards-setting environment to achieve consensus on the required approach for rate-regulated accounting. Given the deferral by the standards-setters to resolve this issue, the government directed Hydro One to follow U.S. GAAP to allow it to continue to account for these rate-regulated assets and liabilities as it

has historically been able to do under Canadian GAAP. This decision is consistent with actions by both the Canadian Securities Administrators and the Ontario Securities Commission that have enabled rate-regulated utilities to submit their financial statements on a U.S. GAAP basis until 2014.

The government looks forward to the standards-setters undertaking actions to complete their efforts to resolve the outstanding rate-regulated accounting concerns and update the standards accordingly.

ACCOUNTING FOR GOVERNMENT TRANSFERS

The Government Transfers project was initiated by PSAB a number of years ago to address several accounting issues related to monetary transfers from one level of government to another, including:

- accounting appropriately for multi-year funding provided by one government to another;
- clarifying the authorization needed for transfers to be recognized;
- clarifying the degree to which stipulations imposed by a transferring government affect the timing of transfer recognition in the accounts of both the transferring and recipient governments; and
- appropriately accounting for transfers that are to be used to acquire or construct tangible capital assets.

One of the most difficult areas to address was how recipients should account for multi-year transfers. For instance, if the federal government made a lump-sum transfer near the end of the fiscal year to a province that was to be used to fund services over several years, should the province immediately recognize the full grant as revenue or should the grant be taken into revenue only as it is being spent on the services for which it was provided? A similar issue arose with respect to capital transfers. A number of stakeholders took the view that a capital transfer should be recognized as revenue when the recipient government incurred the expenditure that made it eligible to receive the grant. However, other stakeholders said PSAB standards should allow for such transfers to be brought into revenue over time as the tangible capital asset acquired or constructed with the transferred funds is amortized.

After substantial discussion, consideration of respondents' views, and the issue of several documents for comments, PSAB approved a new Government Transfers standard in December 2010. Under the new standard, a recipient government must recognize a transfer as revenue when the transfer has been authorized and has met all eligibility criteria, with one exception. This requirement does not apply when the transferring government creates a liability for the recipient government by imposing stipulations on the use of the transfer or on the actions the recipient needs to take to keep the transfer. As well, the standard recognizes that actions and communications by the recipient that restrict the use of the funds for a specific future purpose can create a liability. In practice, whether the facts and circumstances surrounding a particular transfer support the recognition of a liability is a matter of professional judgment. If a transfer is deemed to create a liability for the recipient government, the transfer is recognized as revenue offsetting the expenditure of the funds as the liability is settled over time.

FINANCIAL INSTRUMENTS

Financial instruments—including derivatives such as foreign-exchange forward contracts, swaps, futures, and options—are used to manage financial risks. Currently, PSAB guidance on accounting for the use of derivatives is limited to their application in hedging foreign-currency risks, such as government debt denominated in foreign funds. Accordingly, Ontario and all other governments in Canada provide details on their financial risks, the use of financial instruments such as derivatives to

mitigate these risks, and the current fair value of their reported debt in the notes to their financial statements.

In January 2005, the Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) approved three new accounting standards titled "Financial Instruments," "Comprehensive Income," and "Hedges." These private-sector standards underscored the need to address these same issues from a public-sector perspective. Accordingly, PSAB created a task force to consider how governments should account for their financial instruments. One of the key issues the task force needed to address was whether changes in the market or fair value of derivative contracts should be reflected in a government's financial statements and, in particular, whether they should affect the measurement of the government's annual surplus or deficit.

A few of the milestones and decision-points over the life of the project are highlighted below:

- The PSAB task force issued a statement of principles on financial instruments in June 2007 that set out suggested principles for the recognition and measurement of financial instruments consistent with the direction provided by the AcSB.
- Governments, in response to PSAB's proposed standard, raised concerns that reflecting fair-value changes that do not result in any money actually coming in or going out was not reflective of the inflows and outflows of economic resources associated with the delivery of services to the public. A key point raised by this group was that most governments enter into derivative contracts to hedge their foreign-currency or interest-rate risks, and therefore hold these contracts until they mature, at which time any gains or losses arising during the period the derivative was held would net to zero.
- PSAB responded to stakeholder concerns in September 2009 with a revised proposal for a Financial Instruments standard recommending that all unrealized gains and losses from fair-value remeasurement of financial instruments be recorded in the statement of operations, but that these gains and losses should be reported separately from other government revenues and expenses. PSAB hoped that separate reporting of these remeasurement gains and losses would clearly distinguish their impact on any annual surplus or deficit and thus alleviate stakeholder concerns.
- Responses from all governments to this proposal continued to raise concern that the inclusion of unrealized market-value gains and losses in government financial statements would create volatility and not reflect the economic substance of government financing transactions. As well, we and others disagreed with the "two bottom lines" that the proposed standard would require including in a government's consolidated statement of operations, and felt this would be confusing to users of the statements.

PSAB responded by proposing a new standard in November 2010. Its main requirements included recording derivatives at fair value and recording unrealized changes in their fair value in a new Statement of Remeasurement Gains and Losses. Unrealized gains and losses from fair-value remeasurement of financial instruments would not be recorded in the statement of operations. Consistent with the previous proposal, hedge accounting would no longer be required.

In response to this proposal, we indicated that our primary focus in assessing any proposed change to accounting standards is to consider its impact on the determination of a government's annual surplus or deficit. Therefore, we said we firmly believed that measurable changes in the value of assets and liabilities that occur under a government's watch should generally be included in their reported surplus or deficit in the period these changes occurred. However, we did not support reporting the annual changes in the values of financial instruments in a separate quasi-equity statement. In our view, the

addition of a separate statement of remeasurement gains and losses would diminish the value of a government's statement of operations. Also, adding yet another statement would do little to make a government's financial statements, which already tend to be quite complex, more understandable to the lay reader.

We proposed that any new financial instruments standard should recognize the fundamental difference between derivatives acquired to mitigate foreign-currency risk and those acquired to mitigate interest-rate risk. Specifically, we proposed that PSAB consider recording only foreign-currency derivatives at fair value because changes in the fair value of both the debt and the offsetting derivative would be recorded in the government's statement of operations and thereby affect the annual surplus or deficit appropriately. However, because changes in the fair value of interest-rate derivatives would result in only a one-sided valuation change being recorded in the statement of operations, we proposed including changes in their fair value only in the notes to the financial statements and not in the statement of operations.

However, after substantial discussion and consideration of respondents' views, PSAB approved the new Financial Instruments standard in March 2011, reflecting the proposals made in its November 2010 re-exposure draft. We appreciated the opportunity to present our views on this issue and, even though PSAB chose not to accept the alternative we had proposed, we accept the final standard and will continue to apply all of PSAB's standards in auditing the fairness of the province's consolidated financial statements.

Public Sector Accounting Board Initiatives

This section briefly outlines some of the other more significant issues that the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) has been dealing with over the last year, which may in future affect the province's consolidated financial statements.

INTRODUCTION

As noted earlier, PSAB has the authority to set accounting and financial reporting standards for the public sector in Canada. In addition to issuing revised standards for financial instruments and government transfers discussed earlier in this chapter, some of the other more noteworthy financial accounting and reporting issues PSAB resolved during the past year include determining the appropriate accounting framework for government organizations and the accounting for foreign-currency translation. One of the more significant projects that PSAB is currently working on is a revision of its conceptual framework that supports the development of consistent accounting standards for the public sector in Canada.

STANDARDS

Government Not-for-profit Organizations

The CICA's Accounting Standards Board (AcSB) is responsible for establishing Canadian accounting and financial-reporting standards for private-sector profit-oriented enterprises and private-sector not-for-profit organizations. In response to the ongoing globalization of financial markets and the movement toward worldwide standards, the AcSB implemented a number of financial reporting changes this year.

International Financial Reporting Standards (IFRS) replaced the previous set of Canadian generally accepted accounting principles (GAAP) as the accounting framework used to prepare the financial statements of publicly accountable, profit-oriented enterprises. For enterprises that are not publicly accountable or profit-oriented and which did not wish to adopt IFRSs, the AcSB introduced two

additional accounting frameworks: "Accounting Standards for Private Enterprises" and "Accounting Standards for Private Sector Not-for-Profit Organizations."

In September 2010, PSAB concluded that government not-for-profit organizations should apply the provisions of the *Public Sector Accounting Handbook (PSA Handbook)*. To ease the transition of these organizations into the *PSA Handbook*, PSAB introduced specific not-for-profit standards, known as the "4200 Series," in the *PSA Handbook*. These new standards are for the most part similar to Canadian GAAP used previously by not-for-profit organizations. A not-for-profit organization can elect to follow the 4200 Series in the *PSA Handbook* or, alternatively, apply the provisions of the *PSA Handbook* without the 4200 Series. This requirement is effective for fiscal periods beginning on or after January 1, 2012.

Foreign-currency Translation

In June 2011, PSAB also issued a new accounting standard on foreign-currency translation to ensure consistency with its new standard on financial instruments. Although the revised standard addresses a number of issues, the most significant revision eliminates the current requirement to defer and amortize gains and losses resulting from foreign-exchange fluctuations. Similar to the new standard on financial instruments, unrealized foreign-exchange gains and losses will now be recorded separately from other revenues and expenses of a government or its organization, in the Statement of Remeasurement Gains and Losses. Only when the actual gains and losses from foreign exchange fluctuations are realized will they be recorded in the Statement of Operations and hence impact the surplus or deficit of the government or its organization. This revised standard is also effective for fiscal periods beginning on or after April 1, 2012, for government organizations and April 1, 2015, for governments.

Conceptual Framework

As indicated earlier, PSAB's conceptual framework is a set of interrelated objectives and fundamentals that support the development of consistent accounting standards. It is the basis on which stakeholders such as those who prepare government financial statements, legislative auditors, and PSAB discuss and assess proposals to address emerging accounting issues. A key benefit of the framework is to instill discipline into the standard-setting process to ensure that accounting standards are objective, credible, and consistent.

PSAB formed the Conceptual Framework Task Force in response to concerns raised by several governments regarding current revenue and expense definitions, which they contend result in volatility in reported results and make budget-to-actual comparisons difficult. The objective of the Task Force is to review the appropriateness of the concepts and principles in the existing Framework for the public sector in the *PSA Handbook*. In April 2011, the Task Force began its review of the conceptual framework. The following August, it issued the first of two consultation papers to seek input from stakeholders on the key characteristics of public-sector entities and their accounting and reporting implications for general-purpose financial statements. The Task Force plans to issue a second consultation paper in the second quarter of 2012 that will likely discuss the following issues related to financial statements:

- users and what they need to have reported;
- the objectives of reporting in financial statements; and
- the qualitative characteristics of information to be reported.

The input received from the two consultation papers will then be considered in drafting a statement of principles for public comment.

Statutory Matters

Under section 12 of the *Auditor General Act*, I am required to report on any Special Warrants and Treasury Board Orders issued during the year. In addition, section 91 of the *Legislative Assembly Act* requires that I report on any transfers of money between items within the same vote in the Estimates of the Office of the Assembly.

LEGISLATIVE APPROVAL OF EXPENDITURES

Shortly after presenting its budget, the government tables detailed Expenditure Estimates in the Legislative Assembly outlining, on a program-by-program basis, each ministry's spending proposals. The Standing Committee on Estimates (Committee) reviews selected ministry estimates and presents a report on them to the Legislature. The estimates of those ministries that are not selected for review are deemed to be passed by the Committee and are so reported to the Legislature. Orders for Concurrence for each of the estimates reported on by the Committee are debated in the Legislature for a maximum of two hours and then voted on.

Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving a *Supply Act*, which stipulates the amounts that can be spent by ministry programs, typically those set out in the estimates. Once the *Supply Act* is approved, the individual program expenditures are considered to be Voted Appropriations. The *Supply Act* pertaining to the fiscal year ended March 31, 2011, received Royal Assent on March 30, 2011.

The *Supply Act* is typically not passed until well after the start of the fiscal year, but ministry programs require interim spending authority prior to its passage. For the fiscal year ending March 31, 2011, the Legislature authorized these payments by passing three acts allowing interim appropriations: the *Interim Appropriation for 2010–2011 Act, 2009*; the *Supplementary Interim Appropriation Act, 2010*; and the *Supplementary Interim Appropriation Act, 2010* (No. 2). These three acts received Royal Assent on December 15, 2009, May 18, 2010, and December 8, 2010, respectively, and authorized the government to incur up to $123.8 billion in public-service expenditures, $3.7 billion in investments of the public service, and $176 million in legislative office expenditures. All three acts were made effective as of April 1, 2010. On February 23, 2011, the Legislature also passed a motion of interim supply providing the legislative offices with temporary approval to incur the additional expenditures contained in the 2010/11 Estimates that were not authorized under the three interim acts.

The three interim acts, in conjunction with the motion of interim supply, provided the government with sufficient temporary appropriations to allow it to incur expenditures from April 1, 2010, to when the *Supply Act* received Royal Assent on March 30, 2011. As the legal spending authority under the interim acts was intended to be temporary, all three were repealed under the *Supply Act*, *2011,* and the authority to incur expenditures provided under them was subsumed into the authority provided under the *Supply Act, 2011*.

SPECIAL WARRANTS

If the Legislature is not in session, section 1.0.7 of the *Financial Administration Act* allows for the issuance of Special Warrants authorizing the incurring of expenditures for which there is no appropriation by the Legislature or for which the appropriation is insufficient. Special Warrants are authorized by Orders-in-Council approved by the Lieutenant Governor on the recommendation of the government.

There were no Special Warrants issued for the fiscal year ended March 31, 2011.

TREASURY BOARD ORDERS

Section 1.0.8 of the *Financial Administration Act* allows the Treasury Board to make an order authorizing expenditures to supplement the amount of any voted appropriation that is expected to be insufficient to carry out the purpose for which it was made. The order may be made only if the amount of the increase is offset by a corresponding reduction of expenditures to be incurred from other voted appropriations not fully spent in the fiscal year. The order may be made at any time before the books of the government for the fiscal year are closed. The government considers the books to be closed when any final adjustments arising from our audit have been made and the Public Accounts have been tabled in the Legislature.

Even though the *Treasury Board Act, 1991* was repealed and re-enacted within the *Financial Administration Act* in December 2009, subsection 5(4) of the repealed act allows the Treasury Board to delegate to any member of the Executive Council or to any public servant employed under the *Public Service of Ontario Act, 2006* any power, duty, or function of the Treasury Board, subject to limitations and requirements that the Treasury Board may specify. This delegation under the repealed act will continue to be in effect until replaced by a new delegation. For the fiscal year ended March 31, 2011, the Treasury Board delegated its authority to ministers for issuing Treasury Board Orders to make transfers between programs within their ministries, and to the Chair of the Treasury Board for making transfers in programs between ministries and making supplementary appropriations from contingency funds. Supplementary appropriations are Treasury Board Orders in which the amount of an appropriation is offset by a reduction to the amount available under the government's centrally controlled contingency fund.

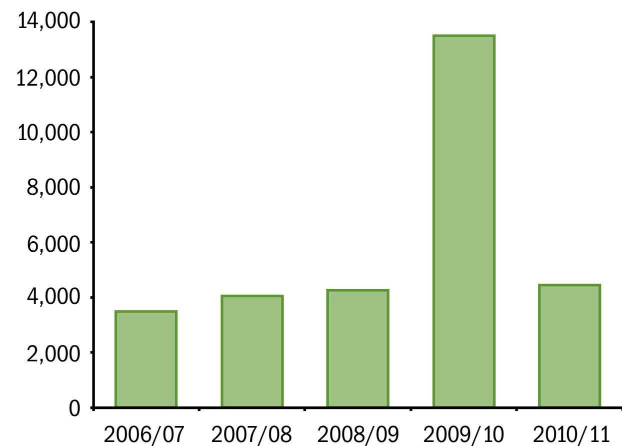
Figure 8 summarizes the total value of Treasury Board Orders issued for the past five fiscal years.

Treasury Board Orders increased significantly in the 2009/10 fiscal year, primarily in the Ministry of Finance and the Ministry of Energy and Infrastructure (now the two separate ministries of Energy and of Infrastructure), as a result of loans to the auto sector and infrastructure stimulus spending. Figure 9 summarizes Treasury Board Orders for the fiscal year ended March 31, 2011, by month of issue.

According to the Standing Orders of the Legislative Assembly, Treasury Board Orders are to be printed in the *Ontario Gazette*, together with explanatory information. Orders issued for the 2010/11 fiscal year are expected to be published in the Ontario Gazette in December 2011. A detailed listing of 2010/11 Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit 3 of this report.

Figure 8: Total Value of Treasury Board Orders, 2006/07–2010/11 ($ million)

Source of data: Treasury Board



TRANSFERS AUTHORIZED BY THE BOARD OF INTERNAL ECONOMY

When the Board of Internal Economy authorizes the transfer of money from one item of the Estimates of the Office of the Assembly to another item within the same vote, section 91 of the *Legislative Assembly Act* requires that we make special mention of the transfer(s) in our Annual Report.

With respect to the 2010/11 Estimates, there were no transfers made within the votes of the Office of the Assembly.

Figure 9: Total Value of Treasury Board Orders by Month in 2010/11

Source of data: Treasury Board

Month of Issue	#	Authorized ($ million)
April 2010–February 2011	79	3,441
March 2011	19	692
April 2011	20	212
May 2011	2	109
June 2011	1	6
Total	**121**	**4,460**

UNCOLLECTIBLE ACCOUNTS

Under section 5 of the *Financial Administration Act*, the Lieutenant Governor in Council, on the recommendation of the Minister of Finance, may authorize an Order-in-Council to delete from the accounts any amounts due to the Crown that are the subject of a settlement or deemed uncollectible. The amounts deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 2010/11 fiscal year, receivables of $432.1 million due to the Crown from individuals and non-government organizations were written off (the comparable amount in 2009/10 was $410.3 million). The major portion of the writeoffs in the 2010/11 fiscal year related to the following:

- $145.2 million for uncollectible receivables under the Student Support Program ($316.7 million in 2009/10);
- $118.8 million for uncollectible receivables under the Ontario Disability Support Program ($5 million in 2009/10);
- $71.9 million for uncollectible retail sales tax ($21.4 million in 2009/10);
- $65.1 million for uncollectible corporate tax ($55.5 million in 2009/10);
- $9.6 million for uncollectible tobacco tax ($200,000 in 2009/10); and
- $6.4 million for uncollectible employer health tax ($5.4 million in 2009/10).

Volume 2 of the 2010/11 Public Accounts summarizes the writeoffs by ministry. Under the accounting policies followed in the preparation of the consolidated financial statements of the province, a provision for doubtful accounts is recorded against accounts receivable balances. Accordingly, most of the writeoffs had already been expensed in the government's consolidated financial statements. However, the actual deletion from the accounts required Order-in-Council approval.