Chapter 2

Public Accounts of the Province

Introduction

Ontario's Public Accounts for the fiscal year ending March 31, 2015, were prepared under the direction of the Minister of Finance, as required by the *Financial Administration Act* (Act) and the President of the Treasury Board. The Public Accounts consist of the province's Annual Report, including the province's consolidated financial statements, and three supplementary volumes of additional financial information.

The government is responsible for preparing the consolidated financial statements and ensuring that this information, including many amounts based on estimates and judgment, is presented fairly. The government is also responsible for ensuring that an effective system of control, with supporting procedures, is in place to authorize transactions, safeguard assets and maintain proper records.

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

The province's 2014/15 Annual Report also contains a Financial Statement Discussion and Analysis section that provides additional information regarding the province's financial condition and fiscal results for the year ended March 31, 2015. Providing 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 revenue 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 audited 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 2014/15 Annual Report and Consolidated Financial Statements, along with the three Public Accounts supplementary volumes, on September 28, 2015, meeting the legislated deadline.

In conducting our annual audit of the Public Accounts we work closely with the Treasury Board Secretariat and particularly with the Office of the Provincial Controller and the Ministry of Finance. While we might not always agree on financial reporting issues, our working relationship has always been professional and constructive.

Summary

A major area of commentary in our *2014 Annual Report* focused on Ontario's growing debt burden. As a follow-up, we discuss the topic this year, focusing on the critical implications of the growing debt for the province's finances. Increases in the debt are attributable to continued government borrowing to finance deficits and infrastructure spending. Although the debt has been growing at a somewhat lower rate than last year's estimates, it continues to rise.

The negative impacts of a large debt burden include:

- debt-servicing costs divert funding away from other government programs;
- a greater vulnerability to any interest-rate increases; and
- potential credit-rating downgrades and changes in investor sentiment, which could make it more expensive for Ontario to borrow.

Consistent with our commentary last year, we continue to take the view that the government should provide legislators and the public with long-term targets for addressing Ontario's current and projected debt, and we again recommend that the government develop a long-term debt-reduction plan.

We also report in this chapter that the province's consolidated financial statements consistently comply with the standards of the Public Sector Accounting Board (PSAB) in all material respects. Successive governments have been diligent in their continued efforts to improve the clarity and completeness of the province's consolidated financial statements and Annual Report. This was demonstrated in this year's Public Accounts, with the province recognizing an additional $1.7 billion in environmental liabilities in its March 31, 2015 Consolidated Financial Statements, in accordance with PSAB's new accounting standard, *PS 3260, Liability for Contaminated Sites*, which addresses accounting for, and reporting liabilities associated with, contaminated sites and their remediation.

We also reviewed the content of the Financial Statement Discussion and Analysis (FSD&A) included in the province's Annual Report. Overall, we believe the FSD&A is easy to understand and highlights the financial management principles underlying the province's financial results and actual-to-budget variances during the past year. However, we have identified a number of areas where additional information to improve insight into the province's financial position and annual operating results for the year could be incorporated into the FSD&A.

It is our view that PSAB standards are the most appropriate for the province to use in preparing the consolidated financial statements. This ensures that information provided by the government about the surplus and the deficit is fair, consistent and comparable to data from previous years. This allows legislators and the public to better assess government management of the public purse.

However, we note PSAB faces challenges in reaching a consensus among its various stakeholders, including auditors and those who prepare financial statements, on what accounting standards are most appropriate for the public sector. In this Annual Report, we discuss three significant accounting issues that PSAB has been addressing on an ongoing basis. We further outline PSAB initiatives relating to the development of new accounting standards that might impact the preparation of the province's consolidated financial statements in the future.

We also raise again the issue of Ontario having introduced legislation on a number of occasions to establish specific accounting practices that are not, in some cases, consistent with PSAB. Up to now, this has not had any material impact on the province's consolidated financial statements. However, the use of existing legislated accounting treatments by the government on future transactions, or the introduction by the government of further legislated accounting treatments, could make this a greater concern to my Office that the financial results of the province may not be fairly stated. Therefore, standard-setters, governments and auditors must work together in the public interest to resolve financial reporting issues faced by governments and public-sector entities.

The Province's 2014/15 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 note that my Independent Auditor's Report to the Legislative Assembly on the province's Consolidated Financial Statements for the year ended on March 31, 2015, is free of reservations. It 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, 2015, 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, 2015, 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]

Toronto, Ontario   Bonnie Lysyk, MBA, CPA, CA, LPA
August 21, 2015   Auditor General

The above audit opinion is without any reservation, indicating that the consolidated financial statements fairly present the province's fiscal results for the 2014/15 fiscal year and its financial position at March 31, 2015 in accordance with Public Sector Accounting Board standards. This "clean" audit opinion means that, based on our audit work, we have concluded that the province's consolidated financial statements were prepared in accordance with accounting standards recommended for governments by the Chartered Professional Accountants of Canada (CPA Canada). We are also communicating to users that the province's consolidated financial statements do not have any material or significant errors and provide a fair reflection of what has actually transpired during the year.

If we were to have concerns with the government's compliance with CPA Canada's recommended Public Sector Accounting Board (PSAB) standards, we may be required to issue an audit opinion with a reservation. An audit opinion with a reservation means significant financial transactions have not been recorded, have not been recorded properly, or have not been disclosed properly in the notes to the province's consolidated financial statements.

In determining whether a reservation is needed, we consider the materiality or significance of the unrecorded, misstated or improperly disclosed items in relation to the overall consolidated financial statements. An assessment of what is material (significant) and immaterial (insignificant) is based primarily on our professional judgment. Essentially, we ask the question "Is this error, misstatement or omission significant enough that it could affect decisions made by users of the province's consolidated financial statements?" If the answer is yes, then we consider the error, misstatement or omission material.

To help make this assessment, we determine a materiality threshold. This year, as in past years and consistent with most other provincial jurisdictions, we set the threshold at 0.5% of the greater of government expenses or revenue for the year. If misstated items individually or collectively exceed this threshold, and management is not willing to make appropriate adjustments, a reservation in our Independent Auditor's Report would be required.

My Office has been working closely with the Office of the Provincial Controller Division of the Treasury Board Secretariat over the years to enhance the usefulness, readability and transparency of Ontario's Annual Report and consolidated financial statements, so we were pleased to see

a recent report from the C.D. Howe Institute on federal and provincial reporting practices that recognized these enhancements. Ontario received a grade of "A," ranking it among the best in the overall quality of its reporting on financial results. A major aim of the C.D. Howe report is to celebrate the relatively transparent reporting in New Brunswick, Saskatchewan, Ontario and Ottawa, and to encourage other jurisdictions to raise their game.

As a final comment, it is notable that in the past 22 years, all Ontario governments regardless of their political party have complied in all material respects with approved accounting standards. Accordingly, our Office has been able to issue "clean" audit opinions on the province's consolidated financial statements every year since the province adopted PSAB accounting standards in the 1993/94 fiscal year.

Update on Ontario's Debt Burden

In our *2014 Annual Report*, we commented on Ontario's growing debt burden, attributable to its large deficits in recent years and its investments in capital assets such as infrastructure. We noted that the province has been able to rely on historically low interest rates to keep its debt-servicing costs relatively stable, but the debt itself, whether measured as total debt, net debt or accumulated deficit, continued to grow. **Figure 1** shows the province's debt levels continue to rise, though at a lower rate than projected last year.

- **Total debt** is the total amount of borrowed money the government owes to external parties. It consists of bonds issued in public capital markets, non-public debt, T-bills and U.S. commercial paper. Total debt provides the broadest measure of a government's debt load.
- **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 theoretically 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 annual deficits and surpluses of the government. It can also be derived by deducting the value of the government's non-financial assets, such as its tangible capital assets, from its net debt.

Figure 1: Total Debt, Net Debt, and Accumulated Deficit, 2009/10–2017/18

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015 Ontario Budget and Office of the Auditor General of Ontario

	Actual ($ million)						Estimate ($ million)		
	2009/10[1]	2010/11[1]	2011/12[1]	2012/13[1]	2013/14[1]	2014/15[2]	2015/16[1]	2016/17[1]	2017/18[1]
Total debt	212,122	236,629	257,278	281,065	295,758	314,960	323,619	334,800	341,400
Net debt	193,589	214,511	235,582	252,088	267,190	284,576	298,864	311,500	319,500
Accumulated deficit	130,957	144,573	158,410	167,132	176,634	187,511	194,848	199,700	199,700

1. 2015 Ontario Budget
2. 2014/15 Province of Ontario Consolidated Financial Statements

Main Contributors to Net Debt

The province's growing net debt since the end of the 2008/09 fiscal year is attributable to its large deficits in recent years, along with its investments in capital assets such as buildings, other infrastructure and equipment acquired directly or through public-private partnerships for the government or its consolidated organizations, such as public hospitals, as illustrated in **Figure 2**.

While annual deficits are projected to decline, the province is still increasing its borrowings annually to finance these deficits, replace maturing debt and to fund infrastructure. In fact, the net debt is projected to continue growing in absolute terms even after the province starts to run annual budget surpluses. The province can begin paying down its debt only when such future surpluses provide cash flows over and above the amounts required to fund government operations and net investments in tangible capital assets.

By the time the government projects it will have eliminated the deficit in 2017/18, Ontario's net debt will have doubled over a 10-year period, from $156.6 billion in 2007/08 to over $319.0 billion by 2017/18. We estimate total debt will exceed $340.0 billion by 2017/18.

To put this debt in perspective, the amount of net debt owed by each resident of Ontario on behalf of the government will increase from about $12,000 per person in 2008 to about $23,000 per person in 2018. In other words, to eliminate Ontario's net debt, each Ontarian would need to contribute $23,000 to the provincial coffers.

Ontario's Ratio of Net Debt to GDP

We noted a key indicator of the government's ability to carry its debt is the level of debt relative to the size of the economy. This ratio of debt to the market value of goods and services produced by an economy (the gross domestic product, or GDP) measures the relationship between a government's obligations and its capacity to raise the

Figure 2: Net Debt Growth Factors, 2009/10–2017/18 ($ million)

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015 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	Increase/ (Decrease)
Actual						
2008/09	156,616	6,409	5,348	1,212	169,585	12,969
2009/10	169,585	19,262	5,832	(1,090)	193,589	24,004
2010/11	193,589	14,011	7,306	(395)	214,511	20,922
2011/12	214,511	12,969	7,234	868	235,582	21,071
2012/13	235,582	9,220	7,784	(498)	252,088	16,506
2013/14	252,088	10,453	5,600	(951)	267,190	15,102
2014/15	267,190	10,315	6,509	562	284,576	17,386
Estimated						
2015/16	284,576	8,500	5,788		298,864	14,288
2016/17	298,864	4,800	7,836		311,500	12,636
2017/18	311,500	-	8,000		319,500	8,000
Total over 10 years	**–**	**95,939**	**67,237**	**(292)**	**–**	**162,884**

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

funds needed to meet them. It is an indicator of the burden of government debt on the economy.

If the amount of debt that must be repaid relative to the value of the GDP is rising—in other words, the ratio is rising—it means the government's net debt is growing faster than the provincial economy, and becoming an increasing burden.

Figure 3 shows that the province's net debt-to-GDP ratio gradually fell over a period of eight years, from a high of 32.2% in 1999/2000 to 26.2% in 2007/08. However, it has been trending upward since then, reflecting such factors as the 2008 global economic downturn, when tax revenues fell abruptly and the government increased its borrowings significantly to fund annual deficits and infrastructure stimulus spending.

The net debt-to-GDP ratio is projected to reach a high of 39.9% in each of 2015/16 and 2016/17. After this peak, the government expects the ratio will begin falling, dropping to 39.3% in 2017/18. We note a small improvement in the projected net debt-to-GDP ratio from last year's estimate, reported in the province's 2013/14 Annual Report, of 40.5% in 2015/16, 40.3% in 2016/17, and 39.5% in 2017/18.

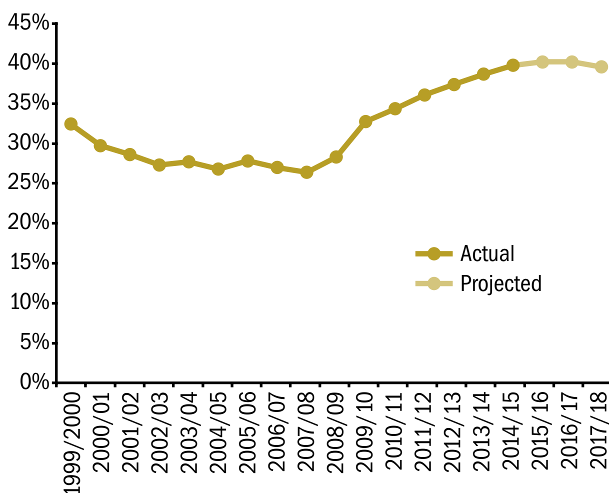
We noted in our *2014 Annual Report* that many experts believe when a jurisdiction's net debt-to-GDP ratio rises above 60%, that jurisdiction's fiscal health is at risk and is vulnerable to unexpected economic shocks.

We also warned it was somewhat of an oversimplification to rely on just one measure to assess a government's borrowing capacity, because that measure does not take into account Ontario's share of federal and municipal debts. If the province's share of those debts was included in its indebtedness calculations, the net debt would be much higher. However, consistent with debt-measurement methodologies used by most jurisdictions, we have focused throughout our analysis only on the provincial government's net debt.

An interesting exercise in assessing Ontario's ratio of net debt-to-GDP is to compare it with other Canadian jurisdictions. **Figure 4** shows the net debt of most provinces and the federal government, along with their respective ratios of net debt-to-GDP. Generally, the western provinces have a significantly lower net debt-to-GDP ratio than Ontario and the Atlantic provinces, and Quebec has a significantly higher ratio than Ontario.

Figure 3: Ratio of Net Debt to Gross Domestic Product (GDP), 1999/2000–2017/18

Source of data: March 31, 2015 Province of Ontario Annual Report – Financial Statement Discussion and Analysis



Note: Net debt includes broader-public-sector net debt starting in 2005/06.

Figure 4: Net Debt and the Net-debt-to-GDP Ratios of Canadian Jurisdictions, 2014/15

Sources of data: Province of Ontario Annual Report and Consolidated Financial Statements; Annual Report and Consolidated Financial Statements of other provincial jurisdictions; Federal Budgets and budget updates, budgets of provincial jurisdictions; and the Office of the Auditor General of Ontario

	Net Debt ($ million)	Net Debt to GDP (%)
AB	(13,054)	(3.6)
SK	5,552	6.7
BC	38,902	16.3
NL	10,259	29.2
MB	18,963	29.8
Federal	687,000	34.8
PEI	2,149	36.0
NS	15,031	37.0
NB	12,422	38.2
ON	284,576	39.5
QC	190,402	50.7

Ratio of Net Debt to Total Annual Revenue

Another useful measure of government debt is the ratio of net debt to total annual revenues, an indicator of how much time it would take to eliminate the debt if the province spent all of its revenues on nothing but debt repayment. For instance, a ratio of 250% indicates that it would take two-and-a-half-years to eliminate the provincial debt if all revenues were devoted to it. As shown in **Figure 5**, this ratio declined from about 200% in 1999/2000 to about 150% in 2007/08, reflecting the fact that, while the province's net debt remained essentially the same, annual provincial revenue was increasing. However, the ratio has increased steadily since 2007/08 and is expected to top 238% by 2017/18. This increasing ratio of net debt to total annual revenue indicates the province's net debt has less revenue to support it.

Ratio of Interest Expense to Revenue

Increases in the cost of servicing total debt, or interest expense, can directly affect the quantity and quality of programs and services that government can provide: the higher the proportion of government revenues going to pay interest costs on past borrowings, the lower the proportion available for program spending in other areas.

The interest-expense-to-revenue ratio illustrates the extent to which servicing past borrowings takes a greater or lesser share of total revenues.

As **Figure 6** shows, the province's interest-expense-to-total-revenue ratio decreased steadily in the decade ending in 2007/08, due mainly to a lower interest-rate environment. Because rates have been at historic lows since the beginning of this decade, both the actual and projected interest-expense-to-total-revenues ratio have held steady from 2009/10 to now at approximately 9.0% and are expected to continue to hold steady at around 9.0% to 2015/16. This is the case even as the province's total borrowings are expected to increase by approximately $111.0 billion, or 52%, from $212.0 billion to over $323.0 billion.

Based on the government's latest projections, the ratio is expected to gradually increase to 9.6% by 2016/17 and to almost 10% by 2017/18, when total debt is expected to be around $340 billion.

The province's debt also exposes it to further risks, the most significant being interest-rate risk.

Figure 5: Ratio of Net Debt as Percentage of Total Annual Revenue, 1999/2000–2017/18

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015, 2009, 2008 Ontario Budgets, Office of the Auditor General of Ontario

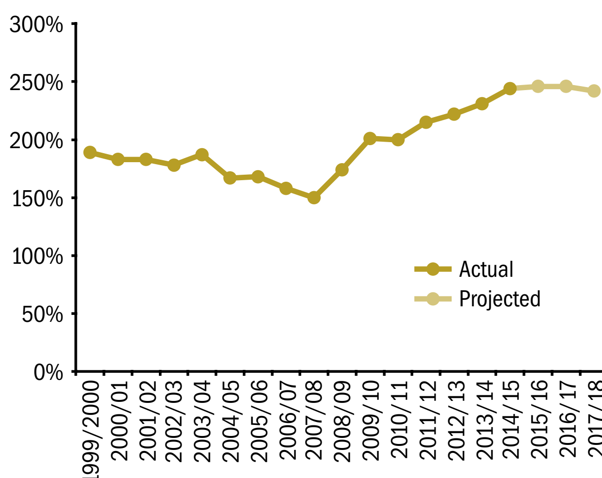
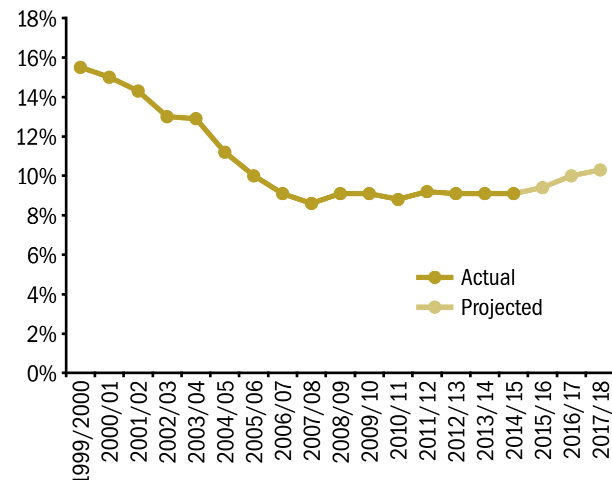


Figure 6: Ratio of Interest Expense to Revenue, 1999/2000–2017/18

Sources of data: March 31, 2015 Province of Ontario Consolidated Financial Statements, 2015, 2009, 2008 Ontario Budgets, Office of the Auditor General of Ontario



As discussed above, interest rates are currently at record low levels, enabling the government to keep its annual interest expense relatively steady even as its total borrowing has increased significantly. However, if interest rates rise, the government will have considerably less flexibility to provide public services because a higher proportion of its revenues will be required to pay interest on the province's outstanding debt. The government has mitigated its interest-rate risk to some extent by increasing the weighted average term of its annual borrowings. In 2008/09, the average borrowing term was 8.6 years, increasing to 14.1 years in 2014/15.

The increase in the ratio of interest-expense-to-revenue, expected to begin in 2016/17, indicates the government will have less flexibility to respond to changing economic circumstances. Past government borrowing decisions mean a growing portion of revenues will not be available for other current and future government programs.

Consequences of High Indebtedness

Our commentary last year highlighted the consequences for the province of carrying a large debt load—and the same observations are relevant this year. They include the following:

- **Debt-servicing costs cut into funding for other programs:** As debt grows, so do interest costs. As interest costs consume a greater proportion of government resources, there is less to spend on other things. To put this "crowding-out" effect into perspective, the government currently spends more on debt interest than on post-secondary education.
- **Greater vulnerability to interest-rate increases:** Over the past few years, governments have generally benefitted from record-low interest rates. Ontario has been able to keep its annual interest expense relatively steady, even as its total borrowing has increased significantly. For example, it was paying an average effective interest rate of about 8% in 1999/2000, but that dropped to 3.73% in 2014/15. However, if interest rates start to rise again, the government will have considerably less flexibility to provide public services as it will have to devote a higher proportion of its revenue to interest.
- **Potential credit-rating downgrades could lead to higher borrowing costs:** Prepared by specialized agencies, credit ratings assess a government's creditworthiness largely based on its capacity to generate revenue to service its debt. They consider such factors as a government's economic resources and prospects, industrial and institutional strengths, financial health, and susceptibility to major risks. A credit rating affects the cost of future government borrowing, with a lower rating indicating that an agency believes there is a relatively higher risk that a government will default on its debt. Accordingly, investors will lend to that government only in return for a greater risk premium, in the form of higher interest rates. A rating downgrade can also shrink the potential market for a government's debt, because some investors will not hold debt below a certain rating.

Final Thoughts

We recognize that, ultimately, decisions about how much debt the province should carry, and the strategies to pay down that debt, are questions of government policy. However, as we observed last year, this should not prevent the government from providing information to promote a greater understanding of the issue and clarify the choices it is making, or will make, to address it.

We continue to believe that in light of the government's plan to eliminate its annual deficit by 2017/18, and given that its debt-carrying costs were expected to rise from their current historic lows, this would be a good time for the government, legislators and the public to start a

conversation about the potential reduction of the provincial debt.

We noted that government debt has been described as a burden on future generations, especially debt used to finance operating deficits (debt used to finance infrastructure is more likely to leave behind tangible capital assets that benefit future generations).

The government has presented a plan to eliminate its annual deficit in 2017/18 by restraining spending, and committed to subsequently reducing the net debt-to-GDP ratio to the pre-recession level of 27%. However, no clear strategy has been articulated for paying down current and future debt. Regardless of what strategy is being contemplated, we believe the government should provide legislators and the public with long-term targets for its plans to address current and projected debt. Therefore, we are reiterating our recommendation from last year.

RECOMMENDATION

In order to address the province's growing total debt burden, the government should work toward the development of a long-term total-debt reduction plan that is linked to its target of reducing its net debt-to-GDP ratio to its pre-recession level of 27%.

TREASURY BOARD SECRETARIAT RESPONSE

The first very important step in returning to a 27% net debt-to-GDP ratio is to balance the budget. Debt is incurred primarily for two reasons: to finance deficits and to make investments in capital assets. The government has a $130-billion plan over 10 years to invest in capital. Those capital investments are amortized over a period of time corresponding to the useful life of these assets. Once a balanced budget is achieved, the difference between the cash investment to build the assets and the amortization (which is a non-cash amount) will continue to increase the debt.

One of the objectives of investment in capital is to improve the economic growth of the province. As that investment increases growth, it supplements GDP growth and the net debt-to-GDP ratio will come down more quickly than it would without these investments in capital assets. A recent report found that, on average, investing $1 in public infrastructure in Canada raises GDP by $1.43 in the short term and up to $3.83 in the long term.

The government's plan therefore hinges on first balancing the budget, and then making investments in capital assets, which will add to economic growth, resulting in GDP growing more quickly than debt, and thereby lowering the net debt-to-GDP ratio to the government's 27% target.

The Province's Annual Report

The province's consolidated financial statements are key accountability documents that describe more than just the province's bottom line. The amounts reported in the statements, along with the notes, provide important information on the province's financial health.

However, many people, including those who do not have an accounting background, find government financial statements complicated and difficult to understand.

Each year the government provides a Financial Statement Discussion and Analysis (FSD&A) in its Annual Report to help the public understand the province's consolidated financial statements. The FSD&A is supposed to help users of the statements understand the impact of economic conditions and of government decisions on the province's financial results for the year, and its financial position at year end.

The FSD&A in this year's Annual Report compares the province's actual results for 2014/15 to the approved 2014/15 Budget presented in the previous year, and explains major variances. The Annual Report also outlines trends in a number of financial indicators over the past several years such as the composition of revenue by source and expense by sector, spending per capita (as a share of GDP), net debt to GDP and net debt per capita.

Overall, we believe the FSD&A accompanying the province's consolidated financial statements is easy to understand and highlights the financial management principles underlying the province's financial health over the past year. However, we have identified for consideration by the government a number of improvements that could be incorporated into the current FSD&A.

Strong public reports can be a powerful tool for legislators and the public to hold governments accountable, especially when the approved Budget is reflected in the report. A thorough FSD&A, in combination with audited financial statements, helps a government demonstrate its accountability with resources.

Financial Statement Discussion and Analysis

The FSD&A is an essential supplement to the basic financial statements that enhances user understanding of the results for future decision-making and accountability by presenting insights into the province's financial position and operating results for the year. For this reason, the Public Sector Accounting Board (PSAB) has developed a framework for reporting FSD&A through their Statements of Recommended Practice (SORPs).

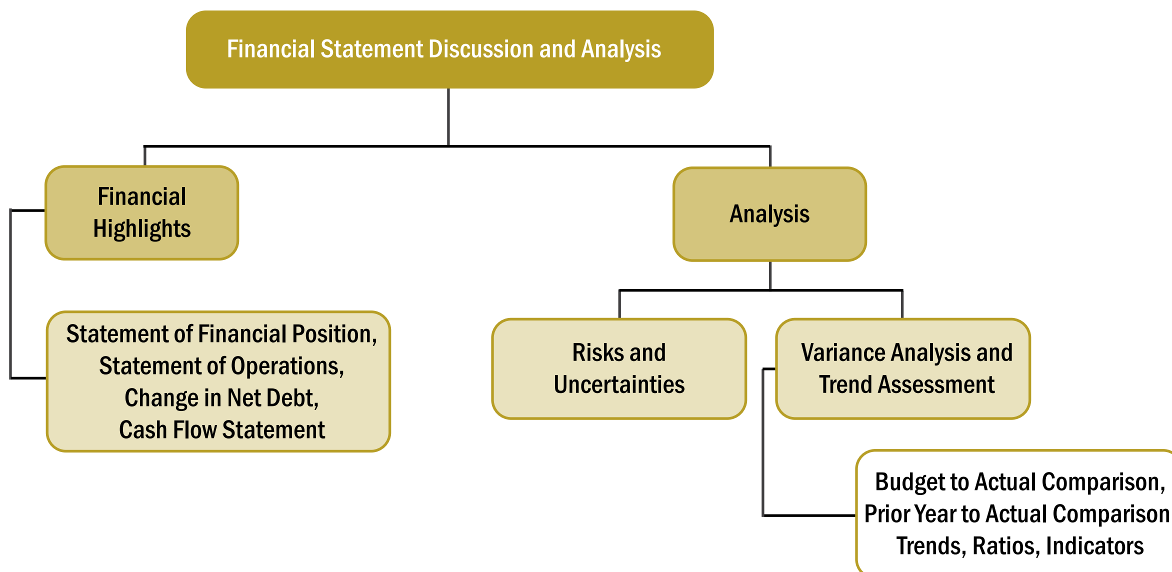
PSAB has issued four SORPs to provide general guidance on supplementary reporting beyond the financial statements. These are:

- SORP-1 *Financial Statement Discussion and Analysis*;
- SORP-2 *Public Performance Reporting*;
- SORP-3 *Assessment of Tangible Capital Assets*; and
- SORP-4 *Indicators of Financial Condition*.

The FSD&A Reporting Framework ("Framework"), discussed in SORP-1, is illustrated in **Figure 7**. The two main components are the financial highlights and analysis. While the financial highlights section summarizes significant

Figure 7: Financial Statement Discussion and Analysis Framework

Sources of data: Public Sector Accounting Board, Statement of Recommended Practice 1



events affecting the financial statements, the analysis section includes information that helps the reader understand the full story. This includes, for example, information on significant risks and uncertainties (and the strategies, policies and techniques used to manage them), significant variances between the current year's actual results and the previous year's Budget and actual results, and significant financial trends.

It is important to note that the SORPs do not form part of the PSAB accounting standards, and there is no requirement for the province to adopt them. However, PSAB encourages governments to use this Framework when preparing FSD&As to make public-sector reports more understandable.

While the province has made improvements in its financial-reporting practices, including those that relate to the province's financial condition using financial indicators as suggested in SORP-4, we have reviewed the FSD&A through the lens of the four SORPs and identified a few areas that would further support transparency and accountability.

Robust Variance Analysis on the Statement of Financial Position

All the financial statements are inter-linked and collectively reflect the province's financial health. One financial statement cannot tell a complete story. However, when all financial statements are combined, they provide powerful information for users. Similarly, the variance analysis that provides information on the financial health of the province would be incomplete without a discussion that includes the perspective of all the financial statements.

Over the past few years, we have noted that the FSD&A accompanying the province's financial statements has focused primarily on evaluating the annual revenue and expense results reported in the province's financial statements against the estimates in the Budget and to a lesser extent the previous year's actual results.

We believe that users would be better able to assess the state of the province's finances if a more robust discussion on the statement of financial position was presented in addition to a year over year comparison analysis. This would enhance readers' understanding of the demands on financial resources, and provide them with relevant information about the amount of funds readily available to meet the province's obligations and finance future operations.

Expand on Analysis of Material Risks and Uncertainties

Risks and uncertainties can have significant consequences to the province's economic well-being. FSD&A users need to understand the government's exposure to risk and uncertainties in order to make informed judgments about the implications of such risks. SORP-1 identified the three primary aspects of risks that could be addressed which include identifying the risk, assessing its potential impact and discussing the strategies and techniques adopted for managing the risk.

We realize it is a challenge to present a level of information that makes the report understandable and that enhance accountability, but we believe the FSD&A could expand its reporting of material financial risks and uncertainties.

While some of the reporting is reflected in the financial statements, information could be expanded in the FSD&A to include for example, revenue and expense sensitivities such as the impact of changes in GDP growth on taxation revenues and program expense estimates respectively. Such information would illustrate the impact of changes in the economy on financial results. We noted that prior to 2007/08 the province included this disclosure in its FSD&A.

Given that debt-carrying costs are expected to rise from their current historic lows, a broader discussion of the province's risk-management policies and strategies to address this issue would provide more value to users.

Assessment of Tangible Capital Assets

Tangible capital assets (TCAs) are a major component of the cost of the province's overall operations. Reporting on their physical condition provides important accountability information that helps users assess the government's stewardship of its resources.

PSAB issued *SORP-3 Assessment of Tangible Capital Assets* to provide guidance for those preparing a report on TCAs so that users can understand:

- the trends in the physical condition of TCAs;
- the adequacy of existing maintenance, replacement and renewal funding; and
- the current and future revenues needed to maintain, renew and replace TCAs.

TCAs are the second-largest item on the statement of financial position (after the debt), and they include administrative and service buildings, dams and engineering structures, provincial highways, bridges, hospital equipment, and many other assets.

Investing in infrastructure has been a central pillar of the province's economic plan, including a commitment to invest more than $130 billion in public infrastructure over 10 years.

The financial statements include information on the original cost of the assets and the recognition of this cost over the assets' useful life, and the FSD&A provides examples of several infrastructure projects in which the province invested during the year. We recognize that the financial statements and Annual Report may not be the ideal vehicles to meet the requirements of SORP-3. But, incorporating certain elements of the recommended practice into the province's Annual Report would be useful for users to assess the province's stewardship of these important resources.

We believe that given the importance of TCAs to the province's ability to provide services, supplemental reporting is necessary to fully understand the physical condition of the assets and the potential future cost of maintaining existing infrastructure.

RECOMMENDATION

We recommend the government consider the guidance outlined in the Public Sector Accounting Board's (PSAB) Statements of Recommended Practice in preparing its Financial Statement Discussion and Analysis for its Annual Report.

TREASURY BOARD SECRETARIAT RESPONSE

The province continues to strive to provide high-quality financial reports that support transparency and accountability in reporting to the public, the legislature and other users. We appreciate the Auditor General's recommendation to enhance the analysis provided in the Financial Statement Discussion and Analysis section of the Annual Report. We will consider how the suggestions outlined in PSAB's Statements of Recommended Practice might help to enhance the quality of the province's future reporting.

Liability for Contaminated Sites

Contamination is the introduction into the environment of hazardous substances or organisms that exceed an environmental standard. It can come from many different sources, including commercial or industrial activity, waste disposal, and spills or leaks.

Areas of land or water that are affected by contamination, such as hazardous waste or pollution in concentrations that pose health and safety risks, and exceed specific levels under environmental standards, are referred to as contaminated sites. In many cases, these sites were contaminated at a time when environmental impacts of certain activities were not understood or considered.

Remediating a contaminated site refers to actions taken to reverse or stop the damage to the environment and human health. The actions may range from removal of hazardous material to restricting access by, for example, fencing in a site. The ultimate objectives of remediation are to remove the contaminant, minimize the risks to the environment and the public, and allow for future use of the site.

A new standard issued by PSAB, entitled *PS 3260, Liability for Contaminated Sites* (PS 3260), addresses ways to account for, and report on, liabilities associated with contaminated sites, and their remediation. This standard was in effect for the province's fiscal year ending March 31, 2015.

Under PS 3260, a liability for remediation of contaminated sites must be recognized when all of the following criteria have been met:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- the government or government organization is directly responsible for or has accepted responsibility for the site;
- it is expected that future economic benefits will be given up to remediate the contamination; and
- a reasonable estimate can be made of the cost of remediation.

The standard calls for governments to calculate their contaminated-site liabilities on a best-estimate basis. All costs directly attributable to remediation, including post-remediation expenses, are to be included in the liability, and the costs to be estimated are those deemed necessary to bring a site up to an appropriate level for use. The total liability is based on the best available information, and is net of any expected recoveries.

The Office of the Provincial Controller Division of Treasury Board Secretariat (Provincial Controller Division) had the lead responsibility for implementing the new standard. Ministries and their consolidated agencies were required to identify, estimate and report to the Provincial Controller Division all liabilities related to contaminated sites in their respective jurisdictions.

The province recognized its liabilities for contaminated sites in accordance with PS 3260 in its March 31, 2015, Consolidated Financial Statements. We concurred with the decision by the Provincial Controller Division to implement this accounting change retroactively as an adjustment to the opening accumulated deficit, with no restatement of financial statements from previous periods. This treatment is supported by PSAB standards.

The resulting implementation of PS 3260 and the recognition of its liability for contaminated sites increased the environmental liabilities recognized in the province's consolidated financial statements by $1.685 billion, from $107.0 million in previous years. The new total liability as at March 31, 2015, was $1.792 billion.

The standard was difficult to implement because estimating environmental liabilities required considerable use of specialists, such as site assessors, engineers and others, to assess the extent of a site's contamination. It took time to establish a complete site inventory, and to populate that inventory with accurate, credible and reliable assessment information to allow for reasonable estimates of future remediation costs.

As expected, the number of sites identified was high, and the potential liabilities large. However, the Provincial Controller Division, working closely with ministries, was able to ensure the standard was implemented effectively and the estimated liability was reasonable.

Chapter 3, **Section 3.10** of this Annual Report describes the work done by the Office of the Provincial Controller Division and key ministry stakeholders to implement PS 3260. Although we detail several of our concerns regarding the precision of the government's liability estimate and the need to improve it over time in that section, we were satisfied with the completeness of the ministries' efforts to identify all high-risk sites and to provide a reasonable estimate of the liability reported under the new standard.

Update on the Workplace Safety and Insurance Board

The Workplace Safety and Insurance Board (WSIB) is a statutory corporation created by the *Workplace Safety and Insurance Act, 1997* (Act). Its primary purpose is to provide income support and medical assistance to workers injured on the job. The WSIB receives no funding from government; it is financed through premiums on employer payrolls.

Over the past decade, we have raised a number of concerns about significant growth in the WSIB's unfunded liability, which is the difference between the value of the WSIB's assets and its estimated financial obligations to pay benefits to injured workers. Our *2009 Annual Report* discussed the risk that the growth and magnitude of the unfunded liability posed to the WSIB's financial viability, including the ultimate risk of the WSIB being unable to meet its existing and future commitments to provide worker benefits.

We also urged the government to reconsider the exclusion of the WSIB's financial results from the province's consolidated financial statements, particularly if there were any risk that the province might have to provide funding to ensure the WSIB remained viable. The government excludes WSIB's financial results because the WSIB is classified as a "trust"; however, given the WSIB's significant unfunded liability and various other factors, we questioned whether the WSIB was operating like a true trust. Including the WSIB in the government's consolidated financial statements would have a significant impact on the government's fiscal performance.

As of June 30, 2010, the WSIB's unfunded liability had grown to almost $13 billion.

In September 2010, the WSIB announced an independent funding review to obtain advice on how to best ensure the long-term financial viability of Ontario's workplace safety and insurance system. The May 2012 report by Professor Harry Arthurs contained a number of recommendations, in particular calling for a new funding strategy for the WSIB with the following key elements:

- realistic assumptions, including a discount rate based on the best actuarial advice;
- moving the WSIB as quickly as feasible beyond a "tipping point" of a 60% funding Sufficiency Ratio (a tipping point is a crisis in which the WSIB could not generate sufficient funds to pay workers' benefits within a reasonable time frame and by reasonable measures); and
- putting the WSIB on course to achieve a 90%–110% funding Sufficiency Ratio within 20 years.

In response to our concerns and to the recommendations of the Arthurs report, the government passed Regulation 141/12 under the Act in June 2012. Effective January 1, 2013, it required the WSIB to ensure it meets the following funding Sufficiency Ratios by specified dates:

- 60% on or before December 31, 2017;
- 80% on or before December 31, 2022; and
- 100% on or before December 31, 2027.

The government also passed Ontario Regulation 338/13 in 2013. It came into force January 1, 2014, and changed the way the WSIB calculates the funding Sufficiency Ratio by changing the method used to value its assets and liabilities. Our Office concurred with this amendment.

The WSIB issues quarterly Sufficiency Reports and an audited Sufficiency Report to stakeholders annually. As of December 31, 2014, under Regulation 141/12 as amended by Regulation 338/13, the WSIB reported a Sufficiency Ratio of 70.9% (in 2013, the Sufficiency Ratio was 63.0%). This means the WSIB has already achieved its December 31, 2017 funding requirement.

The WSIB also submits an annual update of the Sufficiency Plan to the Ministry of Labour by June 30 of each year, in which it describes the measures taken to improve its funding Sufficiency Ratio. The most recent Plan was dated June 18, 2015, and was formally accepted by the Ministry of Labour on August 25, 2015.

The WSIB's operational and financial performance was strong in 2014, as illustrated in **Figure 8**, which provides a summary of the WSIB's operating results and unfunded liability compared to 2013.

The WSIB's continued strong operating performance in 2014 resulted from growth in premium revenues, improved return-to-work outcomes and better-than-expected investment returns (10.3% versus the target of 6.0%).

However, the WSIB's ability to maintain its current funding Sufficiency Ratio, achieve the 2022 and 2027 prescribed funding Sufficiency Ratios, and continue its strong financial performance remains subject to considerable uncertainty regarding future benefit costs, premium revenues and investment returns.

As a result of the government's and the WSIB's commitments to address the unfunded liability and the progress the WSIB had made so far, we supported the continued classification of the WSIB as a trust for the 2014/15 fiscal year and therefore the exclusion of the unfunded liability from the province's liabilities. However, we will continue to monitor the WSIB's progress on meeting the required funding Sufficiency Ratios and re-evaluate our position as necessary.

Sale of Hydro One Inc. and Hydro One Brampton Networks Inc.

In April 2015, the Premier's Advisory Council on Government Assets estimated Hydro One's valuation at between $13.5 billion and $15 billion; using this estimate, the province could realize up to $9 billion from the sale of 60% of Hydro One.

The government passed the *Building Ontario Up Act, 2015* (Act) in June 2015 to permit the sale of up to 60% of Hydro One Inc., and announced plans for an initial public offering of about 15% of common shares for the fiscal year ending March 31, 2016.

The Act requires the province, which is currently the sole shareholder of Hydro One, to retain at least 40% of the company's shares. It also stipulates that no other single shareholder can hold more than 10% of the total equity.

Figure 8: Workplace Safety and Insurance Board Operating Results and Unfunded Liability, 2014 and 2013 ($ million)

Source of data: WSIB Financial Statements and WSIB Fourth Quarter 2014 Report to Stakeholders

	2014	2013
Revenue		
Premiums	4,467	4,387
Net investment income	1,927	2,042
	6,394	**6,429**
Expenses		
Benefit costs	2,623	2,856
Loss of Retirement Income Fund contributions	59	62
Administration and other expenses	358	397
Legislated obligations and commitments	276	267
Remeasurement of employee defined benefit plans	296	(840)
	3,612	**2,742**
Total Comprehensive Income	**2,782**	**3,687**
Less: Non-controlling Interests	(242)	(264)
Total Comprehensive Income Attributable to WSIB Stakeholders	**2,540**	**3,423**
Unfunded Liability	**8,098**	**10,638**

Effective December 4, 2015, the Act removes the ability of my Office to conduct or report on value-for-money audits on the operations of Hydro One. As a result, our recent audit of Hydro One's management of electricity transmission and distribution assets, which we began before the Act was tabled, will be our last value-for-money audit on the company.

As of December 4, 2015, we will still have access to Hydro One's accounts and to information to enable us to conduct our annual audit of the province's consolidated financial statements and issue an audit opinion on the province's consolidated financial statements.

The government has also been proceeding with the sale of Hydro One Brampton Networks Inc., expected to bring the province about $607.0 million, net of any price adjustments. The sale is conditional on retiring approximately $193.0 million in debt owed by Hydro One Brampton Networks to Hydro One. In April 2015, the government announced that it had accepted an unsolicited offer by three local distribution companies, Enersource Corporation, Powerstream Holdings Inc. and Horizon Holdings Inc., to merge with Hydro One Brampton Networks.

Hydro One Brampton Networks is a large growing utility with mature operations, operating in a highly regulated environment, and is consistently profitable each year. As a result, it represents a low risk to potential investors, which would likely have attracted strong interest in the utility if it had been offered for sale publicly using a competitive process. However, since the province did not follow an open, competitive and transparent process for the sale of Hydro One Brampton Networks, it is not possible to determine whether it received the highest value when it accepted the unsolicited offer for the sale. Nevertheless, based on information provided to us by Hydro One and the Ministry of Energy, we estimate that the unsolicited $607.0 million offer is a reasonable offer for Hydro One Brampton Networks, and would provide the province with a fair return on its investment. Hydro One has invested $223.0 million in Hydro One Brampton Networks since it was purchased in 2000, and the government will invest another $193 million to retire the debt.

The merger of Hydro One Brampton Networks and the three purchasing utilities will create the second-largest local distribution company in the province by customer size. The Premier's Advisory Council, which recommended accepting the unsolicited offer, noted that consolidation of smaller utilities was favoured to drive efficiencies and resulting benefits to ratepayers.

On August 31, 2015, Hydro One declared a dividend, transferring all its shares in Hydro One Brampton Networks and the $193.0 million debt and $3.0 million accrued interest to the province. The Brampton sale was still in progress as of October 2015 and subject to approval of the Ontario Energy Board and the municipalities that own the other local distribution companies.

Use of Legislated Accounting Standards

PSAB has been largely successful to date in having its standards accepted by federal, territorial and local governments as the basis for the preparation of their financial statements.

However, as standards develop to address increasingly complex transactions—especially if standards have a significant impact on the accounting and measurement of transactions affecting a government's annual deficit, surplus, or net debt—governments are less willing to adopt PSAB standards because of the potential for volatility in annual results.

As discussed in our *2014 Annual Report*, some Canadian governments have begun in certain circumstances to legislate specific accounting treatments rather than applying independently established accounting standards. This includes Ontario, which several times in recent years passed

legislation or amended regulations to enable it to prescribe accounting policies for its public-sector entities and its consolidated financial statements.

We reported in 2008 that it was a troubling precedent to adopt accounting practices through legislation rather than through an independent, consultative process such as that of PSAB. Although these legislated accounting treatments have not yet resulted in the province's consolidated financial statements materially departing from PSAB standards, the risk of such a material misstatement in the future has increased. The following is a chronological synopsis of these developments:

- The *Investing in Ontario Act, 2008* (Act) and related regulations allows for the government to provide additional transfers to eligible recipients from unplanned surpluses reported in its consolidated financial statements. Any transfers made under the Act would be recorded as an expense of the government for that fiscal year, regardless of PSAB accounting standards.
- In the 2009/10 fiscal year, the *Education Act* and the *Financial Administration Act* were amended. The *Education Act* amendments specified that the government could prescribe accounting standards for Ontario School Boards to use in preparing financial statements. The *Financial Administration Act* amendments allow the government to prescribe accounting standards for any public or non-public entity whose financial statements are included in the province's consolidated financial statements.
- In 2011, a regulation under the *Financial Administration Act* directed Hydro One, a fully owned Ontario government business enterprise, to prepare its financial statements in accordance with U.S. generally accepted accounting principles, effective January 1, 2012. The government has since told another fully owned government business enterprise, Ontario Power Generation Inc. (OPG), to do the same. American accounting rules allow rate-regulated entities to defer current expenses for recognition in future years; the government's direction to adopt these U.S. rules came in anticipation of the planned Canadian adoption of International Financial Reporting Standards (IFRSs), which at that time did not allow for such deferrals.
- Ontario government regulations now require transfers for capital acquisitions and transfers of tangible capital assets to be accounted for by transfer recipients as deferred contributions. The deferred amounts are to be brought into revenue by transfer recipients at the same rate as they recognize amortization expense on the related assets. We have historically supported this accounting because we believe that it best reflects the economic reality of the underlying transactions and complies with generally accepted accounting principles. However, PSAB standards in this area are being interpreted differently by many stakeholders.
- The 2012 Budget further amended the *Financial Administration Act* to provide the government with full authority to make regulations regarding the accounting policies and practices used to prepare its consolidated financial statements.

We have raised this issue of legislated accounting treatment on a number of occasions in our previous Annual Reports, but I will continue to raise it because we believe it is critical that Ontario continue to prepare its financial statements in accordance with generally accepted accounting standards, specifically those of PSAB, in order to maintain its financial credibility.

As the auditor of these statements, I am required to opine on "whether the consolidated financial statements of Ontario, as reported in the Public Accounts, present fairly information in accordance with Canadian public sector accounting standards." If the government reported a deficit or surplus under legislated accounting standards that was materially different than what it would be under

PSAB standards, I would have no choice but to include a reservation in my audit opinion.

Our Office has been able to issue “clean” opinions, without reservations, on the government’s financial statements for the last 22 consecutive years. I sincerely hope that this will continue to be the case. As such, I will continue to raise the matter of the risk of legislated accounting treatments in future Annual Reports.

Significant Accounting Issues

As noted previously, it is our view that PSAB standards are the most appropriate for the province to use in preparing its consolidated financial statements. This ensures that information provided by the government about the surplus or the deficit is fair, consistent and comparable to data from previous years, allowing legislators and the public to assess the government’s management of the public purse. It is worth noting that Ontario’s approved Budget is also prepared on the same basis as its consolidated financial statements.

However, PSAB faces challenges in reaching a consensus among its various stakeholders, including financial statement preparers and auditors, on what accounting standards are most appropriate for the public sector.

We discuss three significant accounting issues (Financial Instruments, Rate-Regulated Accounting and Transfer Payments) that have posed a significant challenge to PSAB over the past few years. Their final accounting-standard determination will affect the way the province accounts for these items, and it will have a significant impact on the province’s reported financial results.

Financial Instruments

Financial instruments include provincial debt, and derivatives such as currency swaps and foreign-exchange forward contracts. PSAB’s project to develop a new standard for reporting financial instruments began in 2005, with a key issue being whether changes in the fair value of derivative contracts held by governments should be reflected in their financial statements and, in particular, whether such changes should affect a government’s annual surplus or deficit.

In March 2011, PSAB approved a new public-sector accounting standard on financial instruments, effective for fiscal periods beginning on or after April 1, 2015. The new standard provides guidance on the treatment of government financial instruments, and is similar to comparable private-sector standards.

One of its main requirements is for certain financial instruments, including derivatives, to be recorded at fair value, with any unrealized gains or losses on these instruments recorded annually in a new financial statement of remeasurement gains and losses.

Some Canadian jurisdiction preparers, including Ontario, do not support the introduction of these fair-value remeasurements and the recognition of unrealized gains and losses. Ontario’s view is that it uses derivatives solely to manage foreign currency and interest-rate risks related to its long-term-debt holdings, and that it has both the intention and ability to hold these derivatives until the debts associated with them mature. Accordingly, remeasurement gains and losses on the derivatives and their underlying debt would offset each other over the total period that such derivatives are held, and therefore would have no real economic impact on the government. The government argues that recording paper gains and losses each year would force the province to inappropriately report the very volatility that the derivatives were acquired to avoid. This, in its view, would not reflect the economic substance of government financing transactions and would not provide the public with transparent information on government finances.

In response to governments’ concerns, PSAB committed to reviewing the new financial

instruments standard by December 2013. PSAB completed its review of *Section PS 2601, Foreign Currency Translation*, and *Section PS 3450, Financial Instruments*, and in February 2014 confirmed the soundness of the principles underlying the new standard.

PSAB initially deferred the effective date for these new standards to fiscal years beginning on or after April 1, 2016. In 2015, however, PSAB further extended the effective date for the new standard to April 1, 2019, for senior governments, to allow for further study of reporting options for these complex financial instruments.

We have recommended in the past, and continue to recommend, ongoing dialogue between our Office and the Office of the Provincial Controller to review areas of common concern as PSAB reassesses the standard in preparation for implementing it on April 1, 2019.

Rate-regulated Accounting

Rate-regulated accounting practices were developed to recognize the unique nature of entities, such as electric utilities, whose rates are regulated. We have in recent years raised concerns about the appropriateness of recognizing such assets and liabilities in the province's consolidated financial statements.

Rate-regulated accounting is used by two of the province's government-controlled businesses enterprises, Ontario Power Generation Inc. (OPG) and Hydro One, whose rates to customers are approved by the government-established regulator, the Ontario Energy Board.

The regulator often allows the entity to recover certain current costs from the rate payer in future years, and these deferred costs are typically set up under rate-regulated accounting as assets on the entity's statement of financial position. Under normal accounting principles, these costs would be expensed in the year incurred.

We have accepted rate-regulated accounting treatment as allowable under Canadian generally accepted accounting principles, even though we question whether rate-regulated assets should be considered as bona fide assets in the government's consolidated financial statements.

We note that since the government controls both the regulator and the regulated entity, it has significant influence on which costs the entity will recognize in a given year. This could ultimately affect both electricity rates and the annual deficit or surplus reported by the government.

The use of rate-regulated accounting is under review by the International Accounting Standards Board (IASB) and Canada's Accounting Standards Board (AcSB). It is still temporarily allowed in certain circumstances under Canadian generally accepted accounting principles.

The issue goes back to December 2009, when the AcSB required publicly accountable enterprises to adopt International Financial Reporting Standards (IFRS) effective for fiscal years beginning on or after January 1, 2011. However, a number of rate-regulated entities expressed concerns at the time about the impact of the change on the reporting of their results, as IFRS did not provide guidance on rate-regulated accounting.

With the uncertainty regarding rate-regulated accounting, the Ontario government passed a regulation in 2011 that allowed both OPG and Hydro One to prepare their financial statements in accordance with U.S. generally accepted accounting standards, and subsequently directed them to do so.

These standards specifically require the entities to use rate-regulated accounting. However, OPG and Hydro One are recorded and consolidated in the province's financial statements using Canadian generally accepted accounting principles.

In our previous annual reports, we have observed that the era of rate-regulated accounting appeared to be ending for jurisdictions like Canada, which were converting to IFRS. Our comments were based on the fact that in January 2012, Canada's AcSB reaffirmed that all government business enterprises should prepare their financial statements in accordance with IFRS for fiscal years

beginning on or after January 1, 2012. At that time, no standard specifically addressed rate-regulated activities and so, by default, IFRS standards did not permit rate-regulated accounting.

However, the landscape continued to change. The United States has not adopted IFRS, and continues to allow rate-regulated accounting. In an effort to reconcile U.S. generally accepted accounting principles with IFRS, Canada's AcSB granted a one-year extension in March 2012 to the mandatory IFRS changeover date for entities with qualifying rate-regulated activities. In September 2012, it granted another extension, to January 1, 2014, and extended it again the following year to January 1, 2015.

The IASB issued an interim IFRS standard in January 2014 with an effective date for fiscal years beginning on or after January 1, 2016. The interim standard eased the adoption of IFRS for rate-regulated entities by allowing them to continue to apply existing policies for their deferred rate-regulated balances upon adoption of IFRS starting on January 1, 2015. Essentially, the interim standard provides a first-time adopter of IFRS with relief from having to derecognize their rate-regulated assets and liabilities. It achieves that by allowing s rate-regulated entities to early adopt *IFRS 14 Regulatory Deferral Accounts* until the IASB completes its comprehensive project on accounting for such assets and liabilities.

Rate-regulated accounting has a significant impact on the government's financial statements. For example, OPG recognized $2.8 billion in net rate-regulated assets as of March 31, 2015. Future reporting under IFRS that does not accommodate rate-regulated accounting may increase the volatility of OPG and Hydro One's annual operating results. This in turn could lead to volatility in the province's annual deficit or surplus and may impact the government's revenue and spending decisions.

We noted in our *2014 Annual Report* that if the government continued to direct OPG and Hydro One to use U.S. generally accepted accounting principles (GAAP) in preparing their financial statements, and continues to use the former Canadian generally accepted accounting principles that do not include IFRS to prepare the province's consolidated financial statements, we will need to assess the differences that result from the government not following accounting standards of PSAB and AcSB. These differences will need to be quantified, and if material, we would most likely treat them as errors in the consolidated financial statements.

The effect of OPG and Hydro One not adopting IFRS on January 1, 2015, was determined to be immaterial to the province's March 31, 2015 consolidated financial statements. The reporting periods of OPG and Hydro One differ from those of the province. Changes in their financial reporting as a result of the new standard will be reflected only as of the province's 2015/16 consolidated financial statements.

My Office will work with the Office of the Provincial Controller Division in 2015/16 to plan for changes related to the consolidation of OPG and Hydro One as a result of changes in accounting standards. We will likely be seeking an audit opinion from the external auditors of OPG and Hydro One attesting to the differences between their financial statement results and the financial position under IFRS and U.S. GAAP.

Transfer Payments

PSAB's Government Transfers project began a number of years ago to address several accounting issues related to monetary transfers from one level of government to another, including the following:

- appropriately accounting for multi-year funding provided by one government to another;
- clarifying the authorization needed for transfers to be recognized by both the government making the transfer, and the one receiving it;
- 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.

After substantial discussion and the issuing of several documents for comments, PSAB approved a new standard on government transfers in December 2010, effective for fiscal years beginning on or after April 1, 2012.

One of the most difficult areas PSAB had to address in developing the standard was how recipients should account for multi-year transfers. If the federal government makes a lump-sum transfer near the end of a fiscal year to a province to fund services over several years, the question arises as to whether the province should immediately recognize the full amount of the grant as revenue, or recognize the revenue spread out over the years it provides the federally funded services.

A similar issue arises with respect to capital transfers from the province to entities such as school boards and hospitals. A number of stakeholders held the view that capital transfers should be recognized as revenue when the recipient government incurs the expenditures making it eligible to receive the grant. However, other stakeholders held that such transfers should be brought into revenue over time as the tangible capital asset acquired or constructed with the transferred funds is used to provide public services.

The new standard generally recommends that recipients should recognize a government transfer as revenue when it has been authorized and the recipient has met all eligibility criteria. However, 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 specifies actions the recipient needs to take to keep the transfer.

The standard also specifies that actions and communications by the recipient that restrict the use of transferred funds for a specific purpose can create a liability. To meet PSAB's liability definition, there must be no discretion to avoid it, there must be a future outflow of economic resources to settle it, and it must be the result of past transactions and events. 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 deferred and recognized as revenue as the liability is settled over time.

As we highlighted in our *2013 Annual Report*, rather than enhancing consistency and comparability in accounting for government transfers, the new standard appears to have created confusion. Its requirements are broad and open to interpretation, resulting in significant differences in its application. This is a concern, because transfers are usually a significant government activity and can have a great impact on reported results. In the 2014/15 fiscal year, Ontario recorded transfer-payment expenses of approximately $50.0 billion and transfer revenue from the federal government of around $22.0 billion.

Many stakeholders had asked PSAB to consider amending the transfers standard because of inconsistencies in interpretation and application. PSAB took the view that more empirical evidence is needed before it will consider amending the standard.

One significant area where consensus has been difficult to reach is accounting for transfers received to fund the acquisition or construction of tangible capital assets. Depending on the circumstances, such transfers might be recognized as revenue when received, when the asset has been acquired or constructed, or over the service life of the asset.

While we acknowledge the controversy over this new standard, we believe that it supports the initial accounting of government transfers and external contributions as deferred capital contributions, with both being recorded as revenue over the useful life of the related tangible capital assets based on transfer stipulations and recipient actions and communications. As such, we agreed with $6.3 billion in deferred capital contributions being recorded in 2014/15 in the province's March 31, 2015,

Consolidated Financial Statements ($5.8 billion in 2013/14).

PSAB is carrying out a post-implementation review of *PS 3410, Government Transfers*, because it is aware of different interpretations and applications of the standard. PSAB hopes this post-implementation review will help it assess implementation challenges encountered by stakeholders, and the nature, extent and cause of any ongoing issues. PSAB noted that it will use responses to the review, along with other procedures, to determine next steps in dealing with the interpretation and application of the standard.

In September 2015, PSAB reported that it had considered the preliminary results of the post-implementation review of *PS 3410, Government Transfers*. PSAB also discussed the options for next steps and requested staff to prepare an options paper for its consideration at a meeting scheduled for December 2015.

We look forward to PSAB sharing the results of the review once it has deliberated on its findings and next steps.

Public Sector Accounting Board Initiatives

This section outlines some additional items that PSAB has been studying over the past year that might affect preparation of the province's consolidated financial statements in the future.

Concepts Underlying Financial Performance

PSAB's existing conceptual framework is a set of interrelated objectives and fundamental principles that support the development of consistent accounting standards. Its purpose is to instill discipline into the standard-setting process to ensure that accounting standards are developed in an objective, credible and consistent manner that serves the public interest.

In 2011, PSAB formed the Conceptual Framework Task Force in response to concerns raised by several governments regarding current revenue and expense definitions, which they contend cause volatility in reported results and distort budget-to-actual comparisons. The task force's objective was to review the appropriateness of the concepts and principles in the existing conceptual framework for the public sector.

The task force's first step was to seek input from stakeholders on the building blocks of the conceptual framework; these will form the basis for evaluating the existing concepts underlying the measurement of financial performance. To this end, the task force has issued two consultation papers: *Characteristics of Public Sector Entities* and *Measuring Financial Performance in Public Sector Financial Statements*. Respondents to these consultation papers were in general agreement with the key proposals.

In March 2015, the task force issued a third consultation paper that proposed a new reporting model and draft principles on public-sector characteristics, financial statement objectives, qualitative characteristics, elements, recognition, measurement and presentation. The task force had asked for comments to be submitted on the third consultation paper by August 31, 2015.

The task force's next step is to develop a statement of principles in the fourth quarter of 2015 that will take into account input received from the three Consultation Papers and propose a revised conceptual framework and reporting model for public-sector entities.

Improvements to Not-for-profit Standards

The Accounting Standards Board (AcSB) and PSAB initiated a joint project in 2011 to improve accounting standards for not-for-profit organizations, including those controlled by the government.

These standards are followed by many organizations funded by the Ontario government.

In April 2013, the Joint Not-for-Profit Task Force established to lead this project issued a statement of principles containing 15 proposals, the most significant of which stipulated that:

- Contributions received would be immediately recognized as revenue, unless the terms of the contribution give rise to an obligation that met the definition of a liability.
- Government not-for-profit organizations would present “net debt” indicators, a statement of net debt as well as budgeted information.
- Government not-for-profit organizations would follow the guidance in CPA Canada’s *Public Sector Accounting Handbook* on the capitalization, amortization, write-down and disposal of tangible capital assets.
- Intangibles, works of art and historical treasures (including collections), and economic interests would continue to be recognized in financial statements.

The statement of principles has generated high levels of interest from stakeholders in the public and private not-for-profit sectors because its proposals are expected to have far-reaching implications on the financial statements of not-for-profit organizations. For example, the statement of principles proposes to remove the not-for-profit organization’s ability to defer capital contributions and recognize these amounts in revenue on a basis consistent with the amortization recorded on the related tangible capital asset. The statement of principles proposes that capital contributions be recorded in revenue, except in those circumstances where the contribution gives rise to an obligation that meets the definition of a liability.

Many not-for-profit organization stakeholders are concerned that an organization’s annual results would be distorted if it is not allowed to follow the traditional accounting practice of deferring capital contributions over the useful life of the related tangible capital asset.

As well, the proposed change will challenge the province’s ability to hold its controlled government not-for-profit organizations accountable for balanced budgets in those later years when amortization is recorded on the tangible capital asset for which the capital contribution was recorded in revenue in an earlier period. The AcSB and PSAB received about 300 letters on this topic and are analyzing them in considering next steps.

Asset Retirement Obligations

The objective of this project is to develop a standard that addresses the reporting of legal obligations associated with the retirement of long-lived tangible capital assets currently in productive use. For example, there may be obligations associated with decommissioning an electricity generating facility.

PSAB issued a statement of principles in August 2014 that proposes a new section on retirement obligations associated with tangible capital assets controlled by a public-sector entity. The main features of this statement of principles are as follows:

- A retirement obligation should be recognized when there is a legal, constructive or equitable obligation to incur retirement costs in relation to a tangible capital asset.
- Upon initial recognition, the entity would increase the carrying amount of the related tangible capital asset by the same amount as the liability. Therefore, the initial recognition of an asset retirement obligation will increase net debt reported by a public-sector entity.
- The estimate of a liability for retirement obligation should include costs directly attributable to retirement activities, including post-retirement operation, maintenance and monitoring.
- A present value technique is often the best method with which to estimate the liability.
- The carrying amount of the liability for a retirement obligation should be reviewed at each financial reporting date.

- Subsequent remeasurement of the liability can result in either a change in the carrying amount of the related tangible capital asset or an expense.

PSAB asked stakeholders to submit comments on the statement of principles by November 21, 2014, and is currently examining those comments. It expects to develop an exposure draft in the second quarter of 2016.

Revenue

Two major sources of government revenue—government transfers and tax revenue—are addressed in the sections *PS 3410 Government Transfers* and *PS 3510 Tax Revenues* of the CPA Canada *Public Sector Accounting Handbook* (*Handbook*). However, the *Handbook* does not specifically address other revenues.

In September 2011, PSAB approved an amended project proposal on revenues to address the limited guidance in the *Handbook* on revenues that are common in the public sector. PSAB did not initiate the project to review the existing revenue standards; rather, it aimed to put in place overarching guidance to address questions about when revenues are recognized, and how they are measured and presented in the financial statements.

In August 2013, PSAB issued a Statement of Principles containing proposals that will affect the reporting of a broad range of revenues. The purpose of the project and Statement of Principles is to expose a new Section on revenues that would apply to public-sector entities that follow the *Handbook*.

The Statement of Principles:

- focuses on two main areas of revenue:
  - exchange transactions; and
  - unilateral (non-exchange) transactions
- notes the presence of performance obligations for the public-sector entity as the distinguishing feature of an exchange transaction;
- defines performance obligations as enforceable promises to provide goods or services;
- recognizes that revenue from an exchange transaction constitutes the public-sector entity's meeting a performance obligation;
- recognizes unilateral revenues when there is the authority and a past event that gives rise to a claim of economic resources; and
- allows that revenue is not reduced when collectability is uncertain; instead, a corresponding allowance for doubtful accounts is established for the associated receivable.

The next step in the project is for an exposure draft to be issued in the third quarter of 2016.

Employment Benefits

In December 2014, PSAB approved an Employment Benefits project to improve the existing sections by taking into account changes in the related accounting concepts and new types of pension plans that were developed since the existing sections were issued decades ago.

The project aims to review the existing sections, *PS 3250 Retirement Benefits* and *PS 3255 Post-employment Benefits, Compensated Absences and Termination Benefits*. The first stage of the project will focus on key issues which include, but are not limited to, deferral of experience gains and losses, discount rate, shared risk plans, multi-employer defined benefit plans and vested sick-leave benefits. The second stage will determine how to account for the new types of pension plans.

The invitation to comment is currently being developed PSAB expects to approve the invitation by March 2016.

Related Party Transactions

PSAB initiated a project in September 2010 with the objective of issuing a new accounting standard that defines a related party in the context of the public sector and describes the measurement and disclosure requirements for related parties and their transactions. Transactions between related parties may not be conducted under the same terms

as transactions between unrelated parties; detailed disclosures allow users to assess the effect of related party transactions on a reporting entity's financial position and financial performance.

Following the publication of several documents for comment, including an exposure draft and a re-exposure draft, PSAB issued a second re-exposure draft for public comment in 2014. This re-exposure draft proposed to create two *Public Sector Accounting Handbook* sections on related party transactions: *Related Party Disclosures and Inter-entity Transactions*.

The objective of the first proposed section, *Related Party Disclosures*, is to define a related party and to provide guidance on disclosing sufficient information about the terms and conditions of related party transactions. The key proposals included in this section are:

- A related party exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control.
- Individuals who are members of key management personnel and close members of their family are included in the definition of related parties; however, the standard would not require disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered. The determination of whether an individual is included in key management personnel requires judgment.
- Two entities that have a member of key management personnel in common may be related depending upon that individual's ability to affect the policies of both entities in their mutual dealings.
- Disclosure should include adequate information about the nature of the relationship with related parties involved in transactions, including the types of related party transactions that have been recognized, the amounts of the transactions classified by financial statement category; the basis of measurement used, the amount of the outstanding balances at period end, and the terms and conditions attached to these balances.
- Disclosure is required only when transactions and events between related parties have or could have a material financial effect on the financial statements.
- Determining which related party transactions to disclose and the level of detail to provide is a matter of judgment.

The purpose of the second section, *Inter-entity Transactions*, is to provide guidance on how to account for transactions that take place between organizations under the common control of a government entity. The most significant proposals are:

- Inter-entity transactions occurring in the normal course of operations and on similar terms and conditions to those adopted if the entities were dealing at arm's length should be recorded at the exchange amount. Transactions in the normal course of a business generally relate to ongoing operating revenues and expenses and do not include the transfer of assets or liabilities.
- Transfers of assets or liabilities between entities are measured based on the amount of the consideration received in exchange:
  - if the consideration received approximates the fair value of the assets or liabilities transferred, the transaction should be measured at the exchange amount;
  - if the consideration received is nominal or nil, the transaction should be measured at the carrying amount by the provider and at the carrying amount or fair value by the recipient; and
  - in all other instances, the transaction should be measured at the carrying amount.
- Allocated costs and recoveries should be measured at the exchange amount.

PSAB accepted feedback on the revised proposals until mid-September 2014. After discussing the responses and the changes proposed by the task force to address the comments, PSAB approved two new *Handbook* sections in December 2014—*Related Party Disclosures* and *Inter-entity Transactions*—and issued them in February 2015. The new standards are to apply to fiscal years beginning on or after April 1, 2017. Early adoption is possible. These sections would be applied prospectively.

Statutory Matters

Under Section 12 of the *Auditor General Act*, the Auditor General is 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 the Auditor General 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 planned spending. The Standing Committee on Estimates (Committee) reviews selected ministry estimates and presents a report on this review to the Legislature. Orders for Concurrence for each of the estimates selected by the Committee, following a report by the Committee, are debated in the Legislature for a maximum of two hours before being voted on. The estimates of those ministries that are not selected are deemed to be passed by the Committee, reported to the Legislature, and approved by the Legislature.

After the Orders for Concurrence are approved, the Legislature still needs to provide its final approval for legal spending authority by approving a Supply Act, which stipulates the amounts that can be spent by ministries and legislative offices, as detailed in the estimates. Once the Supply Act is approved, the expenditures it authorizes are considered to be Voted Appropriations. The *Supply Act, 2015*, which pertained to the fiscal year ended March 31, 2015, received Royal Assent on March 31, 2015.

The Supply Act does not receive Royal Assent until after the start of the fiscal year—and sometimes even after the related fiscal year is over—so the government usually requires interim spending authority prior to its passage. For the 2014/15 fiscal year, the Legislature passed the *Interim Appropriation for 2014-2015 Act, 2014* (Interim Act). The Interim Act received Royal Assent on July 24, 2014, and authorized the government to incur up to $87.3 billion in public-service expenditures, $2.3 billion in investments, and $135.3 million in legislative office expenditures. The Interim Act was made effective as of April 1, 2014.

The *Interim Act* provided the government with sufficient authority to allow it to incur expenditures from April 1, 2014, to when the *Supply Act, 2015*, received Royal Assent on March 31, 2015. The spending authority provided under the Interim Act was intended to be temporary, and it was repealed when the *Supply Act, 2015*, received Royal Assent. The *Supply Act, 2015*, also increased total authorized expenditures of the legislative offices from $135.3 million to $141 million.

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 and approved by the Lieutenant Governor on the recommendation of the government.

For the fiscal year ending March 31, 2015, one Special Warrant totaling $34,668,194,400 was approved by an Order-in-Council dated May 5, 2014. This Special Warrant was required because there was no appropriation by the Legislature for required government expenditures, as the Legislature was not in session. As a result, the Special Warrant allowed ministries and legislative offices to incur expenditures from May 5, 2014, until the Interim Act received Royal Assent on July 24, 2014.

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 published and 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 was retained. This provision allows the Treasury Board to delegate any of its duties or functions to any member of the Executive Council or to any public servant employed under the *Public Service of Ontario Act, 2006*. Such delegations continue to be in effect until replaced by a new delegation. Since 2006, the Treasury Board has delegated its authority for issuing Treasury Board Orders to ministers to make transfers between programs within their ministries, and to the Chair of the Treasury Board for making program transfers 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 in the amount available under the government's centrally controlled contingency fund.

Figure 9 summarizes the total value of Treasury Board Orders issued for the past five fiscal years, and **Figure 10** summarizes Treasury Board Orders for the fiscal year ended March 31, 2015, 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 2014/15 fiscal year are expected to be published in *The Ontario Gazette* in December 2015. A detailed listing of 2014/15 Treasury Board Orders, showing

Figure 9: Total Value of Treasury Board Orders, 2010/11–2014/15 ($ million)
Source of data: Treasury Board

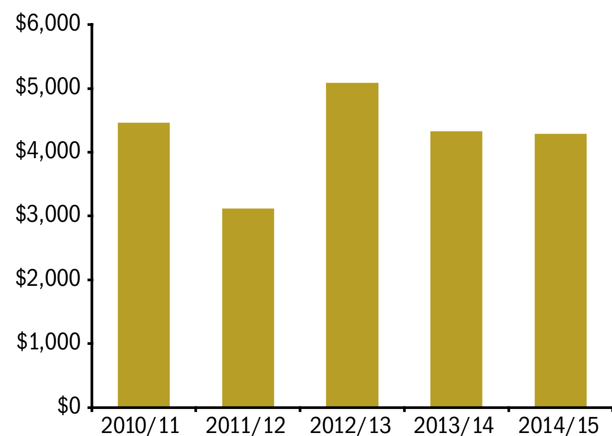


Figure 10: Total Value of Treasury Board Orders by Month Relating to the 2014/15 Fiscal Year
Source of data: Treasury Board

Month of Issue	#	Authorized ($ million)
April 2014–February 2015	36	2,753
March 2015	40	1,170
April 2015	4	4
July 2015	1	364
Total	**81**	**4,291**

the amounts authorized and expended, is included as Exhibit 4 of this Annual Report.

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. Accordingly, **Figure 11** shows the transfers made within Vote 201 with respect to the 2014/15 Estimates.

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.

Figure 11: Authorized Transfers Relating to the Office of the Assembly, 2014/15 Fiscal Year

Source of data: Board of Internal Economy

From:		$
Item 10	Members' Office Support Services	(350,000)
To:		
Item 8	Caucus Support Services	350,000

In the 2014/15 fiscal year, receivables of $354.5 million due to the Crown from individuals and non-government organizations were written off. (The comparable amount in 2013/14 was $390.1 million.) The write-offs in the 2014/15 fiscal year related to the following:

- $107.4 million for uncollectible retail sales tax ($146.7 million in 2013/14);
- $101.1 million for uncollectible corporate tax ($104.3 million in 2013/14);
- $59.7 million for uncollectible receivables under the Student Support Program ($68.0 million in 2013/14);
- $20.3 million for uncollectible tobacco tax ($4.4 million in 2013/14);
- $11.8 million for uncollectible receivables under the Ontario Disability Support Program ($8.6 million in 2013/14);
- $7.2 million for uncollectible receivable related to a bankrupt forestry company ($0.1 million in 2013/14)
- $ 47.0 million for other tax and non-tax receivables ($58.0 million in 2013/14).

Volume 2 of the 2014/15 Public Accounts summarizes the write-offs by ministry. Under the accounting policies followed in the preparation of the province's consolidated financial statements, a provision for doubtful accounts is recorded against accounts receivable balances. Most of the write-offs had already been expensed in the government's consolidated financial statements. However, the actual write-off in the accounts required Order-in-Council approval.