CHAPTER FIVE

Public Accounts of the Province

5.00 INTRODUCTION

The Public Accounts for each fiscal year ending March 31 are prepared under the direction of the Minister of Finance as required by the *Ministry of Treasury and Economics Act*. The Act requires the Public Accounts to be delivered to the Lieutenant Governor in Council for presentation to the Assembly not later than the tenth day of the first session held in the following calendar year. However, the *Standing Orders of the Legislative Assembly* call for the tabling of all statutory reports within six months of the close of the reporting period unless reasons for the delay are given to the House. The *1997-1998 Public Accounts of Ontario* were tabled on September 28, 1998.

The financial statements of the province are the responsibility of the Government of Ontario. This responsibility encompasses ensuring the integrity and fairness of the information presented in the statements, including the many amounts which are based on estimates and judgment. The government is also responsible for ensuring that an established system of control and supporting procedures is maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Provincial Auditor audits and expresses an opinion on the financial statements of the province. This opinion is intended to provide reasonable assurance that the financial statements are free of material misstatement. The financial statements, along with the Provincial Auditor’s opinion on them, are provided in a separate volume of the Public Accounts. In addition to the financial statements, the Public Accounts include the following three supplementary volumes.

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. The Consolidated Revenue Fund reflects the financial activities of the government’s ministries on a modified cash basis.
- Volume 2 contains the financial statements of significant provincial Crown corporations, boards and commissions which are part of the government’s reporting entity and other miscellaneous financial statements.
- Volume 3 contains the details of expenditure and the Ontario Public Service senior salary disclosure.

The Provincial Auditor reviews the information in these three supplementary volumes for consistency with information presented in the financial statements.

THE PROVINCE'S 1997/98 FINANCIAL STATEMENTS

The *Audit Act* requires that in my Annual Report I report on the results of my examination of the province's financial statements as reported in the Public Accounts. I am pleased to report that my Auditor's Report to the Legislative Assembly on the financial statements for the fiscal year ended March 31, 1998 is clear of any qualifications or reservations and reads as follows:

> *To the Legislative Assembly of the Province of Ontario*
>
> *I have audited the statement of financial position of the Province of Ontario as at March 31, 1998 and the statements of operations and accumulated deficit and of changes in financial position for the year then ended. These financial statements are the responsibility of the Government of Ontario. My responsibility is to express an opinion on these financial statements based on my audit.*
>
> *I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.*
>
> *In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with accounting principles recommended for governments by The Canadian Institute of Chartered Accountants. As required by section 12 of the* Audit Act, *I also report that, in my opinion, these accounting principles have been applied, in all material respects, on a basis consistent with that of the preceding year.*

[signed]

Toronto, Ontario
August 14, 1998

Erik Peters, FCA
Provincial Auditor

PROVINCE OF ONTARIO ANNUAL REPORT

Since 1996, the Province of Ontario has published an annual report together with the Public Accounts. These annual reports go a long way toward enhancing the fiscal accountability of the government to both the Legislative Assembly and the public.

ACCOUNTING PRINCIPLES RECOMMENDED FOR GOVERNMENTS

The financial statements of the province include the Consolidated Revenue Fund and organizations owned or controlled by the government, and have been prepared in accordance with accounting principles recommended for governments by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the *CICA Handbook* for private and public corporations in Canada. PSAAB recommendations are contained in the CICA's *Public Sector Accounting and Auditing Handbook*. They represent the consensus of senior government financial officials, legislative auditors and other experts in public sector accounting across Canada on minimum requirements for financial statement accounting and reporting practices for governments.

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In applying PSAAB standards, the province's accounting policies are similar to those promulgated in the *CICA Handbook* for the private sector with the following two key exceptions:

- Crown agencies that generate enough revenues from non-government sources to be self-sufficient are classified as government business enterprises and are consolidated on a modified equity basis as opposed to a line-by-line basis as would be the case in the private sector. Examples of such agencies include the Ontario Lottery Corporation and the Liquor Control Board of Ontario. Agencies defined as government service organizations, which are those financially dependent on the government, are consolidated on a line-by-line basis. It should be noted that regardless of the method of consolidation, the net income or deficit of every consolidated agency is appropriately included in the determination of the province's operating results for the year.
- Investments in capital assets by government ministries and government service organizations are recorded as expenditures in the year incurred rather than as assets and amortized to operations over their estimated useful lives.

Because of their unique nature, two of the largest organizations of the province, the Workplace Safety & Insurance Board and Ontario Hydro, warrant special mention.

Under the *Workers' Compensation Act*, funding of the Workplace Safety & Insurance Board's liabilities, including its large unfunded workers' benefits liability, is a future financial obligation of private-sector employers and not of the province. The Board has therefore been classified as a trust fund and details are provided in a note to the financial statements.

By virtue of the *Power Corporation Act*, Ontario Hydro's earnings and net assets are neither intended nor available for distribution to the province. Accordingly, Ontario Hydro is not consolidated in the financial statements. However, the province's guarantee of Ontario Hydro's debt, and certain aspects of Ontario Hydro's operations and the proposed restructuring of Ontario Hydro are disclosed in the notes to the financial statements. Further discussion of Ontario Hydro issues follows later in this chapter.

RESTRUCTURING CHARGES

In each of the last three fiscal years, the government has provided for significant restructuring charges in its financial statements. These amounts totalled $854 million in 1995/96, $2.2 billion in 1996/97 and $1.6 billion in 1997/98. Of the almost $4.7 billion in total restructuring charges, $3.1 billion had yet to be paid as at March 31, 1998.

These items have been provided for on the basis of two Emerging Issues Committee (EIC) Abstracts. The EIC is a committee of the CICA that reviews new accounting issues, reaches a consensus, and offers guidance as to the appropriate accounting practice to follow. The Ontario Financial Review Commission recommended that EIC Abstracts be considered in the preparation of the province's financial statements.

EIC-23 provides guidance on charging special termination benefits to current operations. It deals with such specific items as severance payments, enhanced pension benefits and cash settlements, and recommends that such benefits should be charged as an expense when management commits to a staff reduction plan.

EIC-60 provides guidance on charging costs to exit an activity. It deals with such costs as special termination benefits, disposal of a portion of a business segment, facility consolidation and relocations, and retraining. The Abstract states that only exit costs that do not benefit future operations are to be expensed when management commits to an exit plan. The Abstract therefore also implies that costs that do benefit future operations are to be recorded when incurred.

Each year we have reviewed the restructuring charges against the criteria set out in EIC-23 and EIC-60 to ensure they are appropriate to be recorded as expenditures. In this regard it should be noted that the *1998 Ontario Budget* indicated the government's plans to charge $3.2 billion in restructuring and other charges against the 1997/98 deficit. However, after review of the proposed charges by our Office with Ministry of Finance officials, the actual expenditures reflected in the audited financial statements were reduced to $1.6 billion. Ministry of Finance officials have agreed to more effective pre-budget consultation with our Office in future on accounting matters, so that accounting differences, such as the ones contributing to this $1.6 billion reduction, can be minimized.

NEW CICA STANDARDS

The CICA attempts to foster improved financial and performance information by continuously improving its existing recommendations and by developing new recommendations to deal with emerging accounting and auditing issues. There are two current projects at various stages of completion which, in our view, are particularly pertinent to the province's financial statements.

TANGIBLE CAPITAL ASSETS

Currently, Ontario ministries and government service organizations expense the full cost of capital assets in the year of purchase or construction. This is different than the practice followed in the private sector where capital assets are recorded on the balance sheet and amortized to operations over their estimated useful lives. In June 1997, PSAAB approved a new set of recommendations setting out rules for the recognition, measurement, amortization and presentation of government capital assets. Among other things, the standard calls for a new statement of tangible capital assets to be included as part of the province's financial statements.

The Ministry of Finance is actively considering the future implementation of these recommendations as part of the new integrated financial information system project; however, little progress has yet been made. There is little doubt that instituting a system to properly account for Ontario's significant capital investments represents a challenge. However, we believe that the enhanced value of the resulting financial information for both decision makers and stakeholders justifies the effort and resources required.

We look forward to consultation on this matter to assist in ensuring that existence, ownership, auditability and valuation issues regarding these assets are resolved, that value for money is obtained, and that cost-effective business practices, systems and procedures are in place to manage, control and account for these assets.

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CASH FLOW STATEMENT

In June of 1998, the CICA's Accounting Standards Board issued a new standard on cash flow statements. The standard calls for cash flows to be classified by operating, investing and financing activities, sets out the components which may be included among cash and cash equivalents, and excludes from the statement investing and financing transactions that do not require the use of cash or cash equivalents. Criteria are also provided for reporting cash flows on a net basis.

We support the standard. Its recommendations are effective for fiscal years beginning after July 31, 1998, and the Ministry of Finance has indicated that it will consider implementing these recommendations in next year's financial statements.

OTHER RECOMMENDATIONS FOR IMPROVEMENT

Although the audit of the province's financial statements was not designed to identify all weaknesses in internal controls, nor to provide assurances on financial systems and procedures as such, we noted a number of areas during the audit where we believed improvements could be made. While none of these matters affects the fairness of the financial statements of the province, they will be covered, along with accompanying recommendations for improvement, in a management letter to the Ministry of Finance.

ONTARIO HYDRO

Ontario Hydro is the largest agency in the province. Currently operating under the authority of the *Power Corporation Act*, Ontario Hydro has broad powers to generate, supply, deliver and regulate electric power at cost throughout Ontario. Ontario Hydro reports to the Legislature through the Minister of Energy, Science and Technology.

The *1997-1998 Public Accounts of Ontario* indicate that:

> *As at December 31, 1997, [Ontario] Hydro's financial statements reported assets of $39 billion and revenues of $8.9 billion for the fiscal year. Hydro reported a net loss of $6.3 billion and an accumulated deficit of $4.5 billion.*

Hydro's net loss resulted primarily from $6.6 billion in corporate write-offs. These write-offs consisted primarily of future costs associated with improving nuclear performance and other related costs such as replacement energy and interest.

SOUND INFORMATION NEEDED FOR DECISION MAKERS

With the significant restructuring of Ontario Hydro, as contemplated in the proposed *Energy Competition Act, 1998*, sound information about Ontario Hydro's operating results and potential stranded debt is essential for legislators. Specifically:

- Any debt that Ontario Hydro could not service in a competitive market is said to be stranded. The government has acknowledged that the risk to the government and the taxpayer associated with the province's guarantee of Ontario Hydro's debt, which totals $27.8 billion, has therefore increased. However, an up-to-date estimate of the amount of stranded debt, estimated in 1996 at $16 billion, is not yet available pending completion of the valuation work being conducted by the government, its advisors and Ontario Hydro.
- The proposed restructuring of Ontario Hydro may have significant implications for the province's future financial statements. If the *Energy Competition Act, 1998* passes in its current form, the annual profit or loss of Ontario Hydro's successor electricity companies would likely be included in the calculation of the province's annual deficit or surplus, and their assets and liabilities would also be included in the financial position of the province.
- Additionally, legislators need to understand Ontario Hydro's operating results, and particularly the impact of the provision in 1997 of $6.4 billion in expected future costs on its operating results for the fiscal years 1998-2001.

RISK UNDER PROVINCIAL GUARANTEE OF ONTARIO HYDRO'S DEBT

At March 31, 1998, the province had guaranteed debentures/bonds and notes of Ontario Hydro totalling $27.8 billion. Ontario Hydro recognizes that its existing debt load is too great and that it is over-leveraged to compete in a future restructured electricity market.

In November 1997 the government released a White Paper *"Direction for Change: Charting a Course for Competitive Electricity and Jobs in Ontario."* The White Paper states that in the absence of special provisions, open access in Ontario's electricity market could increase the risk to the government and the taxpayer associated with the provincial guarantee of Ontario Hydro's debt, due to the existence of potentially stranded debt. In the White Paper, the government defines stranded debt as any debt that Ontario Hydro could not service as a commercial entity in a competitive environment.

The government has developed a six-step plan to deal with the stranded debt problem. It calls for:

- efficient operation of the new companies to achieve cost savings;
- exploring new partnership opportunities with the private sector and local distribution utilities;
- dedicating all payments in lieu of corporate income and capital taxes by the new restructured corporations and local distribution utilities to paying down the stranded debt;
- phasing out the provincial guarantee on new debt by the year 2000;

- if necessary, establishing transition charges including possible direct charges to electricity customers; and
- establishing commercially acceptable capital structures for the new commercial companies.

In its *1997 Annual Report* Ontario Hydro noted that in 1996 it had adopted a $16 billion estimate of potentially stranded debt for strategic discussion purposes and that the calculation of stranded debt involves many variables and is highly sensitive to changes in assumptions, including those about future electricity sales. In its *1997 Annual Report*, Ontario Hydro further stated that if it is financially restructured prior to the year 2001 and ceases to operate as a rate-regulated monopoly, any outstanding provision for future costs on the balance sheet at that time will be factored into the calculation of stranded debt. The government and its advisors are working with Ontario Hydro to develop a current estimate of potentially stranded debt. This also involves establishing the value and capital structure of the successor companies in a competitive environment. This exercise is expected to be completed in fall 1998.

The government has indicated that the expected introduction of competition into the electricity marketplace could increase the government's risk of making payments under its guarantee of Ontario Hydro's $27.8 billion debt. Therefore, the extent of the risk to the government of having to make such payments remains increased and uncertain.

POSSIBLE INCLUSION OF ONTARIO HYDRO IN PROVINCE'S FUTURE FINANCIAL STATEMENTS

Historically, Ontario Hydro has not been included in the province's financial statements for two key reasons:

- Ontario Hydro's mandate under the *Power Corporation Act* is to generate and sell power at cost. There is no mechanism for distribution of any of its net income or assets to the government.
- Under the *Power Corporation Act*, ownership of Ontario Hydro is murky. The Ontario Financial Review Commission had also struggled with this issue and recommended that ownership of Ontario Hydro be clarified.

On June 9, 1998, the *Energy Competition Act, 1998* was tabled, which dealt with the restructuring of the electricity system in Ontario. Subject to approval by the Legislature, the Act would transform Ontario Hydro's historic electricity monopoly into a competitive market and reorganize Ontario Hydro into several separate corporations. If the Act passes in its current form, the above reasons for excluding Ontario Hydro's successor companies from inclusion in the province's financial statements would likely no longer be valid.

Specifically, the Ontario government will be the sole shareholder of the Ontario Electric Services Corporation and the Ontario Electricity Generation Corporation. The Act sets out mechanisms for the payment of dividends and payments in lieu of taxes from these corporations. The new Ontario Hydro Financial Corporation, the debt-holding company, is designated as a Crown agent "for all purposes," and would be subject to significant government control in carrying out its role of servicing and retiring Ontario Hydro's debt.

Inclusion of Ontario Hydro's successor companies in the province's financial statements would mean that their annual operating results would be reflected in the government's annual deficit or surplus, and the assets and liabilities of these successor companies would be included in the province's statement of financial position.

FUTURE COSTS CHARGED AGAINST 1997 OPERATIONS

Ontario Hydro's Board of Directors, citing its rate-setting authority, approved the charging of a $6.6 billion write-off to 1997 operations including $6.4 billion of future expenses expected to be incurred in the 1998-2001 period. Ontario Hydro's rationale for providing for these expected future costs in 1997 was that since it had decided, for rate-setting purposes, that these costs would not be recovered from future electricity rates, they should be immediately written off. By providing for these future costs in 1997, Ontario Hydro forecast net income of $640 million in 1998, $750 million in 1999 and $645 million in the year 2000. The operating losses without the pre-recorded future expenses are illustrated in the following table:

	($ Millions)		
	1998	**1999**	**2000**
Net income forecast in Ontario Hydro's *1997 Annual Report**	640	750	645
Less future expenses, pre-recorded against 1997 results	(1,765)	(1,810)	(1,540)
Operating loss without pre-recorded future expenses	(1,125)	(1,060)	(895)

** No net income forecast for 2001 was made by Ontario Hydro in its* 1997 Annual Report.

Source: Developed from Ontario Hydro's 1997 Annual Report

Under the *Power Corporation Act*, Ontario Hydro has the authority to determine what costs are to be included in electricity rates. However, the Act is silent on how costs are to be treated for financial statement purposes. Ontario Hydro has historically "lock-stepped" its financial statement accounting with its treatment of costs for rate-setting purposes.

The principal reason cited by Ontario Hydro for charging $6.4 billion in future year costs to 1997 was the statutory requirement to avoid continued income statement recognition of future year losses. As the above table shows, if the future costs had not been charged to 1997 income, Ontario Hydro's financial projections would have indicated significant losses in the fiscal years ending 1998 through 2000.

While acknowledging that charging future costs to current operations was not in accordance with generally accepted accounting principles for business enterprises, Ontario Hydro concluded that this accounting treatment was acceptable for enterprises operating in a rate-regulated environment. Ontario Hydro's external auditors added a fourth paragraph to their 1997 Auditor's Report to advise readers that Ontario Hydro's accounting differed from that used by enterprises that are not rate-regulated.

Ontario Hydro justified its decision to provide for future costs in its *1997 Annual Report* by stating that these “costs will not be recovered through rates and represent a loss which can be provided for in 1997.” However, with respect to costs associated with the nuclear asset optimization plan (NAOP) amounting to $4.9 billion, Ontario Hydro’s *1997 Annual Report* stated that “current projections indicate that these expenditures will be recovered in future years, when the nuclear units are returned to optimal levels of operational efficiency.” In connection with work we conducted under section 9(3) of the *Audit Act*, we noted that Ontario Hydro’s business plans and cash flow projections supported the recovery of these costs in future years.

In its quarterly report for the nine months ended September 30, 1997, Ontario Hydro discussed the possible accounting treatment that would be accorded the nuclear asset optimization plan costs as follows:

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> *In a rate-regulated environment, GAAP [generally accepted accounting principles] would permit the deferral and amortization of such expenditures provided there was a reasonable assurance of recovery through future sales revenues or through alternative cash flows such as from stranded debt recovery mechanisms.*

The quarterly report indicated that a rate ruling by the Board of Directors would be required to defer NAOP-related costs for recovery in future years. The report noted that once the nuclear units were returned to optimal levels of operational efficiency, projections were that NAOP-related costs would be recovered. The report indicated the appropriate accounting treatment would be determined in the fourth quarter.

We concur that deferring NAOP-related costs that are expected to be recovered in future years and amortizing them to operations would have reflected an appropriate matching of revenues with expenditures. Alternatively, in future years, if it were determined that certain costs would not be recovered, expensing the costs at that time would also have been acceptable.

Another alternative to the write-off in 1997 of these future costs would have been to write down the appropriate assets to reflect the deterioration of their values necessitating the NAOP expenditures. This alternative was not chosen due, in part, we were informed, to the difficulty of specifically identifying the assets requiring write down. If the amount of the asset write-down had approximated $6.4 billion, the net effect of this alternative on Ontario Hydro’s 1997 operating results and net asset position would have been similar.

NATURE OF FUTURE COSTS CHARGED

Given the impact of the $6.6 billion write-off on Ontario Hydro’s operating results for 1997 and the next four fiscal years, we believe legislators need full information on the nature of this write-off. For instance:

- $2.3 billion was included in the NAOP provision related to the expected incremental cost of using replacement fossil fuels to generate electricity during the years 1998 to 2001 when certain of the nuclear plants are under repair.
- $1.8 billion was included in the NAOP provision for operations, maintenance and administrative expenses to be incurred in the years 1998 to 2001.

- $803 million was also included in the NAOP provision as future interest costs that could have been saved had Ontario Hydro been able to use its surplus cash over the next few years to pay down debt rather than investing in restoring nuclear operating excellence.
- Other future costs not related to NAOP included in the write-off were: future costs of remedial work on transmission and distribution assets ($340 million); future environmental costs related to contaminated lands and PCB phase-out ($185 million); year 2000 information technology costs ($80 million); costs related to the 1998 ice storm in Eastern Ontario ($50 million); and other future miscellaneous costs ($175 million) such as contingent information technology expenditures.

OTHER MATTERS

The Provincial Auditor is required under section 12 of the *Audit Act* to report on any Special Warrants and Treasury Board Orders issued during the year. Additionally, under section 91 of the *Legislative Assembly Act*, the Provincial Auditor is required to report on any transfers of money between Items within the same Vote in the *Estimates* of the Office of the Legislative Assembly.

LEGISLATIVE APPROVAL OF GOVERNMENT EXPENDITURES

The government tables detailed Expenditure Estimates, outlining each ministry's spending proposals on a program-by-program basis, shortly after presenting its Budget. The Standing Committee on Estimates reviews selected ministry Estimates and presents a report to the Legislature with respect to those ministry Estimates that were reviewed. The Estimates of those ministries that are not selected for review are deemed to be passed by the Committee and reported as such to the Legislature. Orders for Concurrence for each of the Estimates reported on by the Committee are debated in the Legislature for a maximum of six hours and then voted on.

Once the Orders for Concurrence are approved, the Legislature provides the government with legal spending authority by approving the *Supply Act* which stipulates the amounts that can be spent according to the ministry programs as set out in the Estimates. Once the *Supply Act* is approved, the individual program expenditures are considered Voted Appropriations. The *Supply Act, 1997,* pertaining to the fiscal year ended March 31, 1998, received Royal Assent on December 18, 1997.

Prior to the passage of the *Supply Act*, the Legislature authorizes payments by means of motions for interim supply. For the 1997/98 fiscal year, the time periods covered by the motions for interim supply and the dates that the motions were agreed to by the Legislature were as follows:

- November 1, 1996 to April 30, 1997 — passed October 24, 1996;
- May 1, 1997 to October 31, 1997 — passed April 30, 1997; and
- November 1, 1997 to April 30, 1998 — passed September 23, 1997.

SPECIAL WARRANTS

If motions for interim supply cannot be approved because the Legislature is not in session, section 7 of the *Treasury Board Act, 1991* allows the issue of a Special Warrant authorizing the expenditure of money for which there is no appropriation by the Legislature. Special Warrants are authorized by Orders in Council approved by the Lieutenant Governor on the recommendation of the government.

As the three motions of interim supply covered the period from April 1, 1997 to March 31, 1998, no Special Warrants were required during the 1997/98 fiscal year.

TREASURY BOARD ORDERS

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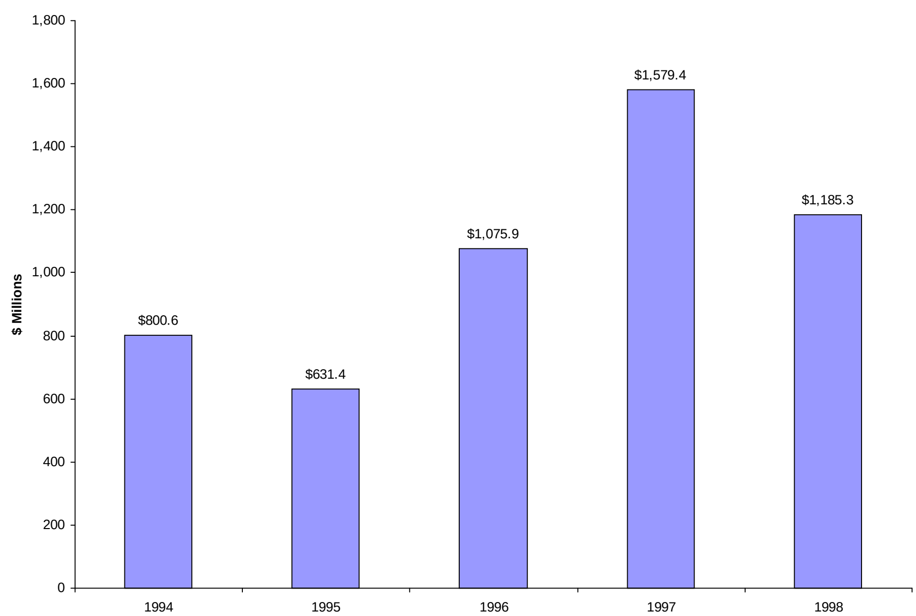
Section 8 of the *Treasury Board Act, 1991* allows the Treasury Board to make an order authorizing payments to supplement the amount of any Voted Appropriation that is insufficient to carry out the purpose for which it was made, provided the amount of the increase is offset by a corresponding reduction of expenditures from other Voted Appropriations not fully spent in the fiscal year. The order may be made at any time before the first day of May following the end of the fiscal year in which the supplemented appropriation was made.

The following chart is a summary of the total value of Treasury Board Orders issued for the past five fiscal years:



Treasury Board Orders for the 1997/98 fiscal year summarized by month of issue are as follows:

Month of Issue	Number	Authorized $
May 1997-February 1998	21	217,067,400
March 1998	12	586,453,500
April 1998	12	381,767,000
	45	1,185,287,900

In accordance with a Standing Order of the Legislative Assembly, the preceding Treasury Board Orders are expected to be listed in *The Ontario Gazette* in October, together with explanatory information. A detailed listing of Treasury Board Orders, showing the amounts authorized and expended, is included as Exhibit Four of this 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 the Provincial Auditor to make special mention of the transfer(s) in the Annual Report.

In respect of the *1997/98 Estimates*, the following transfers were made within Vote 201:

From:	Item 4	Finance and Administration	$ 2,411,700	
	Item 5	Assembly Services	11,081,600	*
To:	Item 1	Office of the Speaker	10,000	
	Item 2	Office of the Clerk	1,945,500	
	Item 3	Legislative Library	1,917,500	
	Item 6	Sergeant at Arms	9,000,300	*
	Item 11	Restructuring Costs	620,000	

** principally due to merging Assembly Services with Sergeant at Arms activities*

In addition, within Vote 202, $5,200 was transferred from Item 2 (Commission on Election Finances) to Item 1 (Environmental Commissioner).

UNCOLLECTABLE 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 amount due to the Crown which is deemed uncollectable. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

In the 1997/98 fiscal year, receivables of $154.2 million due to the Crown from individuals and non-government organizations were written off (in 1996/97 the comparable amount was $116.5 million). Page 3-101 of Volume 2 of the *1997/98 Public Accounts of Ontario* provides a listing of these write-offs in total by ministry or Crown agency.

Under the accounting policies followed in the audited financial statements of the province, a provision for doubtful accounts is recorded against the accounts receivable balances. Accordingly, most of the $154.2 million in write-offs had already been provided for in the audited financial statements. However, the actual deletion from the accounts required Order in Council approval.

The major portion of the write-offs related to the following:

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- $44.8 million to write-off a loan receivable from the Ontario Realty Corporation (ORC) to the province relating to land returned from the ORC to the province. As the government does not capitalize its investments in land or other fixed assets, this transaction necessitated a write-off;
- $42.8 million for uncollectable taxes relating to corporation and retail sales tax receivables;
- $32.5 million for uncollectable fines, penalties, fees, licences and estreated bail;
- $13.0 million for uncollectable loans made under the *Development Corporations Act*; and
- $7.9 million for uncollectable loans made under the Ontario Student Loan program, the Ontario Study Grant Plan and Ontario Special Bursaries.