



Ministry of Finance

Public Accounts of Ontario

**Annual Report and
Consolidated Financial
Statements**

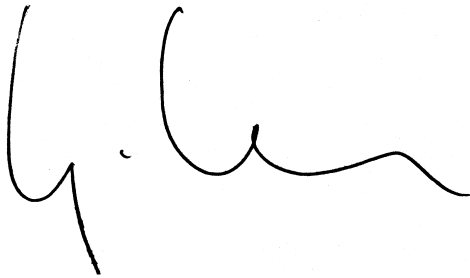
2003-2004

**To The Honourable
James K. Bartleman
Lieutenant Governor of Ontario**

May It Please Your Honour:

The undersigned has the honour to present to Your Honour the Public Accounts of the Province of Ontario for the fiscal year ended March 31, 2004, in accordance with the requirements of the *Ministry of Treasury and Economics Act*.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'G. Sorbara', with a stylized, flowing script.

The Honourable Greg Sorbara
Minister of Finance
Toronto, September 2004

Introduction

The Public Accounts, which includes this Annual Report and the Consolidated Financial Statements, is a major accountability document of the Province, outlining its financial position and results of operations during the past fiscal year. The Province continues to make improvements in financial reporting and accountability as demonstrated in this Annual Report. While there are no major changes in the Annual Report this year, the Financial Statement Discussion and Analysis (FSD&A) section introduced last year has been refined to meet the recommendations of the Public Sector Accounting Board's (PSAB) Statement of Recommended Practice on FSD&A, issued in June 2004.

A related improvement in accountability was the introduction of accrual accounting in the Province's spending Estimates for the 2003–04 fiscal year. The Estimates provide legislative authority for the government's expenditures. Previously, the Estimates were prepared on a modified cash basis of accounting, a basis different from the accrual basis of accounting used to prepare the Budget and Consolidated Financial Statements. Making this change not only enhances comparability across the Province's financial planning and reporting documents, it also improves their understandability, hence leading to better accountability.

An upcoming change which will enhance accountability is the adoption of new recommendations issued by PSAB, defining government organizations to be included in the Province's financial reporting entity. Under the new standards, the Province will include the financial results of 105 school boards and school authorities, 24 community colleges and 152 hospitals in its Consolidated Financial Statements starting with the 2005–06 fiscal year. With the inclusion of these organizations, the Province's annual deficit/surplus will reflect the annual deficits/surpluses of these organizations. In addition, consistent with the accounting treatment for its own assets, the Province's investment in tangible capital assets of these organizations will be capitalized in most instances rather than treated as a current year expense in its Consolidated Financial Statements.

As announced in the 2004 Budget, the Province is also taking action to reform the Budget process. The government has introduced the Fiscal Transparency and Accountability Act, which if passed, will create a framework for the conduct of sustainable fiscal policy and strengthen the government's reporting requirements.

The government is tabling this Annual Report and the Consolidated Financial Statements in September this year, compared to November last year, as a result of amendments to the *Ministry of Treasury and Economics Act*. Starting in fiscal year 2003–04, the government is required to table the Annual Report and the Consolidated Financial Statements within 180 days after the Province's year-

end of March 31. In prior years, the government was allowed to table the Public Accounts no later than the tenth day of the first session held in the following calendar year.

Producing the Public Accounts of Ontario requires the involvement and co-operation of a large number of staff in ministries, agencies and the Office of the Provincial Auditor. I would like to take this opportunity to thank them for their very important contribution to this exercise.

We welcome comments on these documents and invite you to send your feedback. You may e-mail us at annualreport@fin.gov.on.ca or write to the Office of the Provincial Controller, Re: Annual Report, Ontario Ministry of Finance, First Floor, Frost Building South, 7 Queen's Park Crescent, Toronto ON M7A 1Y7.

A handwritten signature in black ink, appearing to read 'Gabriel Sékaly', with a stylized flourish extending from the end.

Gabriel F. Sékaly
Associate Deputy Minister
Fiscal and Financial Policy Division
Ontario Ministry of Finance

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Guide to the Public Accounts

The Public Accounts of the Province of Ontario comprise this Annual Report and three supporting volumes.

Annual Report

The Annual Report includes the Consolidated Financial Statements of the Province of Ontario and a Financial Statement Discussion and Analysis (FSD&A) section that uses narrative and graphs to highlight and explain the numbers in more detail.

The Consolidated Financial Statements are made up of several documents and schedules:

- The Assistant Provincial Auditor's Report on the Consolidated Financial Statements expresses the opinion of the Assistant Provincial Auditor as to whether the Consolidated Financial Statements fairly report the activities of the government in accordance with generally accepted accounting principles.
- The Consolidated Statement of Operations reports the annual deficit/surplus from operations in the period. It shows government revenues, the cost of providing services and other ongoing expenses, and the difference between them.
- The Consolidated Statement of Financial Position shows the financial resources of the Province against its obligations. The resulting figure is called net debt. This figure, reduced by tangible capital assets, represents the accumulated deficit.
- The Consolidated Statement of Change in Net Debt shows the combined effect on net debt of the annual deficit/surplus and the year's net investment in tangible capital assets.
- The Consolidated Statement of Cash Flow reports on the change in cash and cash equivalents, to show how the government financed its activities and met its cash requirements over the period.
- Notes and Schedules provide further information and detail on the items in the various statements and form an integral part of the Consolidated Financial Statements. The notes also include a summary of the significant accounting policies that guide the financial statement reporting.

What's in the supporting volumes:

- Volume 1 contains the Consolidated Revenue Fund schedules and ministry statements. The Consolidated Revenue Fund schedules reflect the financial activities of the government's ministries on the accrual basis of accounting, consistent with the adoption of accrual accounting for the spending Estimates. The ministry statements provide a comparison of appropriations with actual spending.
- Volume 2 contains the financial statements of significant provincial corporations, boards and commissions that are part of the government's reporting entity and other miscellaneous financial statements.
- Volume 3 contains detailed schedules of ministry payments and salary disclosure under the *Public Sector Salary Disclosure Act*.

Statement of Responsibility

The Consolidated Financial Statements are prepared by the government of Ontario in compliance with legislation, and in accordance with accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the recommendations of the Accounting Standards Board (AcSB) of the CICA.

The Financial Statement Discussion and Analysis section of this Annual Report is also prepared by the government of Ontario in compliance with legislation and in accordance with the financial reporting principles and practices recommended for governments by PSAB.

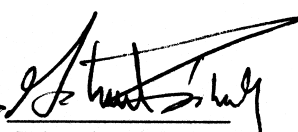
The government accepts responsibility for the objectivity and integrity of these Consolidated Financial Statements and the Financial Statement Discussion and Analysis.

The government is also responsible for maintaining systems of financial management and internal control to provide reasonable assurance that transactions recorded in the Consolidated Financial Statements are within statutory authority, assets are properly safeguarded and reliable financial information is available for preparation of these Consolidated Financial Statements.

The Consolidated Financial Statements have been audited by the Assistant Provincial Auditor of Ontario and his report is on page 33.



Colin Andersen
Deputy Minister
August 20, 2004



Gabriel F. Sékaly
Associate Deputy Minister
August 20, 2004



Robert Siddall, CA
Provincial Controller
August 20, 2004

**FINANCIAL STATEMENT
DISCUSSION
AND
ANALYSIS**

2003–04 Financial Highlights

The 2003–04 Consolidated Financial Statements report a deficit of \$5.5 billion. Program spending continued to rise in health care and education, while revenues were slightly lower than 2002–03, reflecting a weaker 2003 Ontario economy affected by the Severe Acute Respiratory Syndrome (SARS) outbreak, the power blackout in August 2003 and the rapid appreciation of the Canadian dollar against the U.S. dollar.

The 2003–04 revenues were \$5.7 billion lower than expected in the Budget plan while the 2003–04 expenses were \$747 million higher than expected. A budgetary reserve of \$1.0 billion covered part of these changes from the plan.

2003–04 Financial Highlights (\$ Millions)	2003–04 Budget^{1,2}	2003–04 Actual	2002–03 Actual²
Revenues	74,136	68,400	68,891
less Expenses	73,136	73,883	68,774
less Reserve	1,000	—	—
Annual (Deficit) Surplus	—	(5,483)	117
Liabilities		169,775	161,649
less Financial Assets		31,218	29,002
Net Debt		(138,557)	(132,647)
less Tangible Capital Assets		14,369	13,942
Accumulated Deficit		(124,188)	(118,705)

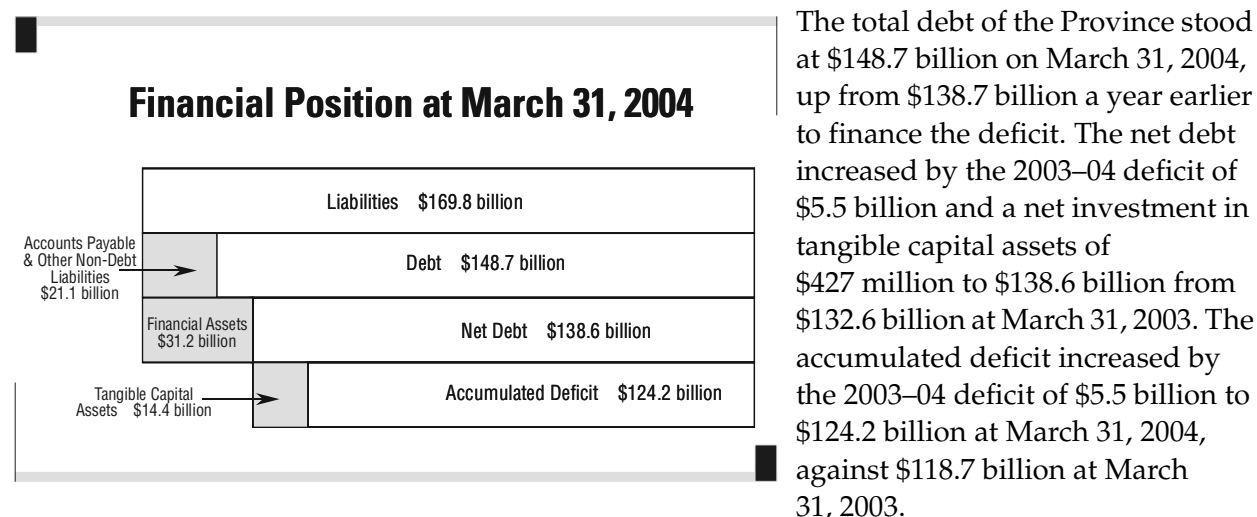
¹ Per 2003 Budget (March 2003). The 2003–04 projected deficit was revised to \$5.6 billion in both the “Report on the Review of the 2003–04 Fiscal Outlook” prepared by Mr. Erik Peters (October 2003) and the “2003 Ontario Economic Outlook and Fiscal Review” (December 2003). The projected deficit was subsequently revised to \$6.2 billion in the 2004 Budget (May 2004).

² The comparative figures have been reclassified as necessary to conform to the 2003–04 actual presentation.

The \$5.7 billion lower 2003–04 revenues than projected in the Budget plan includes:

- Taxation revenues \$2.5 billion lower than expected mainly due to weaker economic growth.
- Income from Investment In Government Business Enterprises \$1.3 billion lower than expected mainly related to lower net income from the Ontario Power Generation Inc. and the Ontario Lottery and Gaming Corporation.
- Sales and Rentals revenues \$1.7 billion lower than expected as most of the revenues from commercialization of government enterprises included in the Budget did not materialize in 2003–04.

The change in expense from what was projected in the Budget plan can be primarily attributed to higher health care expenses as a result of the SARS outbreak, partially offset by lower interest on debt.



Results from Operations

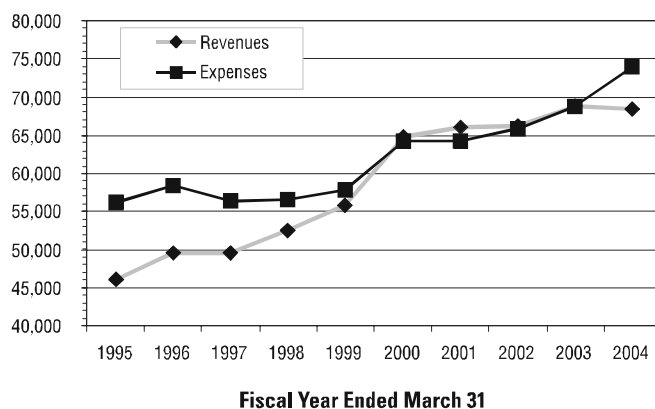
The chart on page 15 shows how revenues and spending have changed over the past 10 years. As the chart shows, Provincial spending has been growing much more quickly in recent years than revenue. In the last five years, program spending¹ has increased by \$13.9 billion or 29 per cent, while tax revenues have increased by only \$2.2 billion or 5 per cent.

Ontario was able to report a surplus for four years from 1999–2000 to 2002–03 because increases in federal transfers and lower interest on public debt helped bridge the gap between the growth in tax revenues and program spending.

1. Program spending is total Provincial expenses excluding interest on debt and capital (capital transfers, amortization of tangible capital assets, repairs, maintenance and other).

1994-95 to 2003-04 Revenues and Expenses

\$ Millions



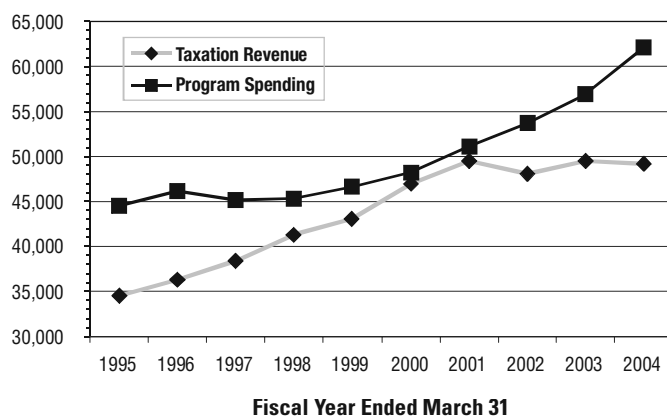
Between 1999–2000 and 2003–04, the federal government increased its transfers to Ontario by 68 per cent from \$5.9 billion in 1999–2000 to \$9.9 billion in 2003–04. By contrast the transfers decreased by 22 per cent from \$7.6 billion in 1994–95 to \$5.9 billion in 1999–2000. The increase was mainly from the Canada Health and Social Transfer (CHST) and other transfers to the health sector. CHST rose from \$4.7 billion to \$7.5 billion between 1999–2000 and 2003–04.

As well, the effective interest rate on the Province's debt declined by 1.7 per cent from 8.46 per cent in 1999–2000 to 6.74 per cent in 2003–2004. Interest expense declined over the period from \$11 billion in 1999–2000 to \$9.6 billion in 2003–04. This reduced the share of provincial spending that goes to interest costs from 17 per cent in 1999–2000 to 13 per cent in 2003–04.

The rapid growth in spending over the period, without a similar growth in taxation revenues, creates a significant risk for future fiscal planning, because of the nature of the mismatch:

Taxation Revenue and Program Spending 1994-95 to 2003-04

\$ Millions



- On the revenue side, the rapid rate of growth in federal funding over the past five years depended on several circumstances that may not reoccur.
- On the expense side, most of the increase in spending went to health and long-term care. Part of the spending was of a one-time nature, but part went into programs that can be expected to result in more spending pressures in future.

Revenues

Revenues Compared to Budget Plan

For the 2003–04 fiscal year, revenues fell \$5.7 billion below the level projected in the March 2003 Budget plan.

The change arose mainly from lower tax revenues, lower income from investment in government business enterprises and lower sales and rental revenues.

Tax revenues were \$2.5 billion lower than expected. Personal Income Tax (PIT) revenues were \$1.6 billion lower than expected, largely due to slower growth in Ontario wages and salaries (2.7 per cent) during 2003 than assumed in the 2003 Budget (6 per cent). Lower 2002 PIT assessments and an adjustment to the estimate of prior years' PIT revenues based on actual PIT assessments also contributed to the shortfall in 2003–04.

Retail Sales Tax (RST) revenues were \$0.6 billion lower than expected, largely due to weaker growth in retail sales (2.8 per cent) than assumed in the 2003 Budget (5.5 per cent). Other factors contributing to the RST revenue shortfall include the impact of the SARS outbreak on the tourism and entertainment industries, and a smaller than expected rebound in business spending on goods and services subject to RST.

Income from investment in government business enterprises was \$1.3 billion lower than expected. Net income from the Ontario Power Generation Inc. (OPG) was \$923 million lower than expected due to write-down of the coal-fired plants, lower electricity demand and the impact of the August 2003 power outage. Also, net income from Ontario Lottery and Gaming Corporation (OLGC) was \$300 million lower than expected as gaming activities were adversely affected by the SARS outbreak, the August 2003 blackout, security-related border crossing slowdowns, the stronger Canadian dollar compared to the U.S. dollar and increasing cross-border competition.

Sales and rentals revenues were \$1.7 billion lower than expected because most of the revenues from commercialization of government enterprises included in the Budget did not materialize in 2003–04. The government sold its 50 per cent share of Teranet in 2003–04, realizing a gain of \$126 million.

Revenues Compared to 2002–03

Total revenues in 2003–04 were \$491 million lower than 2002–03.

Transfers from the federal government increased by \$1.0 billion in 2003–04 as a result of increased federal support for a wide range of provincial programs and policy initiatives, largely in the health care sector. For example, the federal

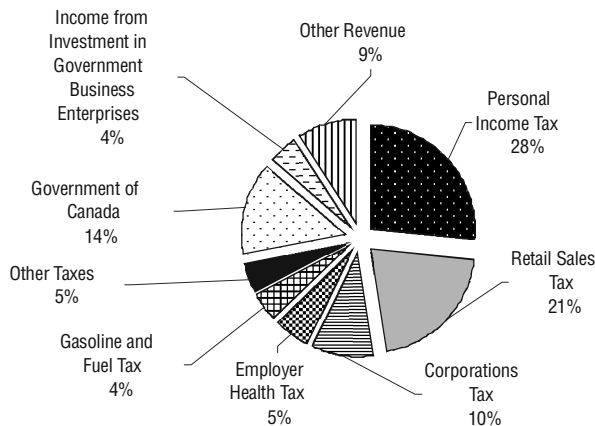
government provided \$387 million in 2003–04 for health care reform and a one-time payment of \$330 million for SARS compensation.

The increase in federal transfers was offset by \$801 million lower Corporations Tax revenue due to adjustments to prior years' estimates and \$872 million lower income from investment in government business enterprises.

Composition of Revenues and Related Risks

The largest source of provincial revenue is taxation, which accounted for 75 per cent of the Province's total revenues on average over the past decade. Taxation revenue is sensitive to economic conditions. Taxation revenues change by \$500 million for each percentage point change in nominal Gross Domestic Product (GDP) growth. The change can vary significantly depending on the composition and source of changes in GDP growth. The Province included \$1.0 billion in its annual Budget as a reserve against this and other uncertainties.

2003–04 Revenue by Source



Personal Income Tax (PIT), Retail Sales Tax (RST) and Corporations Tax revenues combined accounted for 62 per cent of the Province's total revenues on average over the past 10 years.

Transfers from the federal government are another significant source of provincial revenue. These accounted for 12 per cent of total revenues on average in the past decade. These transfers are determined by a number of factors, including the fiscal situation at the federal level, funding formulas, and federal policy. Changing federal

policy, as well as economic conditions that may reduce the amount available for transfers, are also a risk to fiscal planning. This risk is somewhat mitigated by the lead-time the federal government provides in its funding announcements.

Other ongoing sources of provincial revenue include the income of provincially owned business enterprises, as well as fees, permits, sales and rentals, and reimbursements for services the Province provides.

Provincial revenues can sometimes benefit from an event that cannot be relied on as an ongoing revenue source, such as the gain on the sale of a provincially

owned asset. Further, by selling an asset, the Province gives up its claim to any future revenues to which it would have been entitled as owner of the asset.

Additional revenue risks and sensitivities analysis is included in Appendix A.

Expenses

Expenses Compared to Budget Plan

Expenses for 2003–04 were \$747 million or 1 per cent higher than outlined in the Budget Plan mainly due to \$1.2 billion higher spending in the health care sector, offset by \$359 million lower interest on debt. The increase in health care spending resulted primarily from \$503 million higher transfers to hospitals to cover additional operating costs and a SARS related expense of \$610 million not expected in the Budget Plan. Lower interest on debt was due to lower than expected interest rates and cost-effective debt management.

Expenses Compared to 2002–03

Total 2003–04 expenses were \$5.1 billion higher than 2002–03 mainly in the following areas:

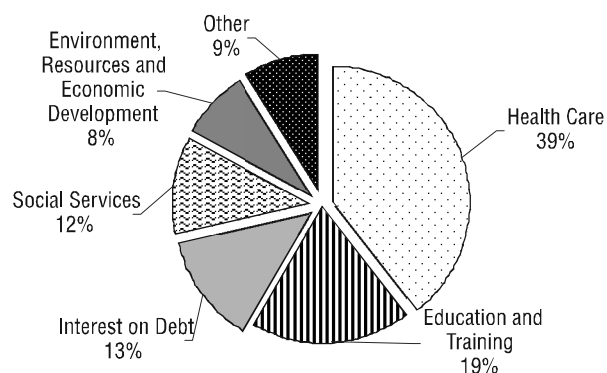
- Health and long-term care spending increased by \$3.1 billion.
- Education and training spending increased by \$1.1 billion.
- Environment, resources and economic development spending increased by \$485 million.
- Social services spending increased by \$349 million.

Spending on health care continued to increase to meet the utilization growth resulting from an expanding and aging population and the higher cost of providing health care. In 2003–04, spending on health care accounted for 39 per cent of the Province's total expenses or 46 per cent of the Province's program spending. Health care spending grew by 12 per cent in 2003–04 while the Province's total expenses and program spending grew by 7 and 9 per cent respectively.

About 37 per cent of the Province's health care spending or 15 per cent of the Province's total expenses in 2003–04 were provided to fund operations of Ontario's 152 hospitals at 228 hospital sites across the Province. Another 39 per cent of the Province's health care spending in 2003–04 provided payments to physicians and other service providers for health care services covered under the Ontario Health Insurance Plan (OHIP), the Ontario Drug Programs and long-term care facilities.

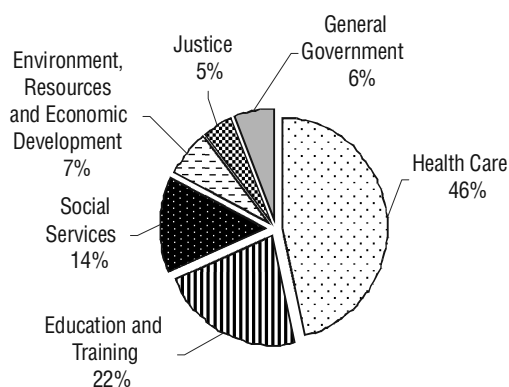
Consistent with the growth in 2002–03, spending on education grew by 9 per cent in 2003–04. About 88 per cent of the 2003–04 education spending or 17 per

2003-04 Expense by Sector



cent of the Province's total expenses in 2003–04 was provided to fund elementary, secondary and post-secondary education. The remaining 12 per cent of 2003–04 education spending went towards various programs such as student financial assistance, apprenticeship and skills training. Funding towards elementary and secondary education accounted for 67 per cent of the 2003–04 education spending.

2003-04 Program Spending by Sector



Operating grants to school boards were increased by \$694 million in 2003–04 to adjust the Student-Focused Funding to reflect actual costs facing school boards and to implement other recommendations of the Education Equality Task Force. Operating grants to universities and colleges were increased by \$259 million primarily due to increased enrollment in post-secondary institutions resulting from secondary school reform/double cohort.

Spending in the environment, resources and economic development sector increased by \$485 million in 2003–04 mainly due

to an increase of \$205 million in the Ministry of Transportation spending and \$212 million in Ministry of Municipal Affairs and Housing expense. The increase in transportation spending was primarily related to transit assistance provided under the Transit Investment Plan and funding to the Toronto Transit Commission for safety and other improvements. The increase in Ministry of Municipal Affairs and Housing expense was primarily attributed to higher spending under the Millennium Partnerships and the Ontario Small Town and Rural Infrastructure initiatives reflecting the progress of the projects in 2003–04.

Social services spending increased by \$349 million in 2003–04 mainly due to caseload growth in various programs such as the Children's Aid Societies' child protection services, developmental services and the Ontario Disability Support Program.

Composition, Trends and Risks

In the past decade, total expenses increased by 32 per cent or \$17.7 billion from \$56.2 billion in 1994–95 to \$73.9 billion in 2003–04. Much of this growth is attributable to an increase of \$11.4 billion, or 64 per cent, in health and long-term care spending. In 1994–95, health and long-term care spending was 32 per cent of total expenses. By 2003–04, however, it had grown significantly, to 39 per cent.

Major factors behind the growth in health care spending include: the human resource costs related to over 21,000 physicians and 40,000 nurses; the introduction of costly new medical technologies and new drugs, improved diagnostic systems and improved treatments; and re-investments after a period of restructuring, including enhancements to patient care and investment in long-term care.

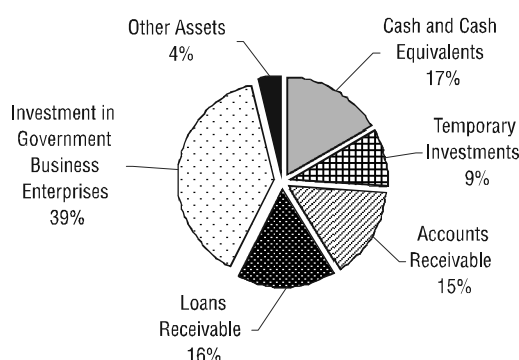
As a general rule, transfers to hospitals will increase by \$113 million for every one per cent increase in hospital funding. Health spending will increase by \$92 million for each percentage increase in the salary of physicians and nurses, \$25 million for each percentage increase in utilization of all drug programs and an additional \$25 million for each percentage increase in the number of long-term care beds.

Ontario is not alone in experiencing significant growth in health care costs. The “Health at a Glance 2003” report from the Organisation for Economic Co-operation and Development (OECD) notes that growth in health care spending is outpacing economic expansion in most OECD countries.

Spending on education and training, representing 18 per cent of the Province’s total expense on average in the past decade, has increased by \$4.5 billion or 48 per cent since 1994–95. There was an acceleration in spending beginning in 1997–98. Starting in the 1998 school year, school board revenues from property taxes were reduced and offset by increases in provincial grants to school boards. Subsequent increases in provincial grants to school boards accounted for further increases starting in 2002–03 as the Province started to adjust the Student-Focused Funding to reflect actual costs facing school boards and to implement other recommendations of the Education Equality Task Force starting in the 2002–03 school year.

Additional expense risks and sensitivities analysis is included in Appendix A, page 27.

Financial Assets by Type at March 31, 2004



Assets

Financial Assets

Financial assets at March 31, 2004 totaled \$31.2 billion, a \$2.2 billion or 8 per cent increase from the previous year's level of \$29.0 billion.

The increase can be attributed primarily to the following areas:

- Increase in liquid assets of \$887 million mainly due to inclusion of \$1.3 billion temporary investments of the Ontario Municipal Economic Infrastructure Financing Authority.¹
- Increase in accounts receivable of \$744 million.
- Increase in other assets of \$864 million mainly due to inclusion of school board trust debt as explained in Note 2 of the Consolidated Financial Statements.

Financial assets include cash and cash equivalents, temporary investments, accounts and loans receivable, and the Province's investment in government business enterprises such as the Liquor Control Board of Ontario, and other assets.

Investment in Government Business Enterprises

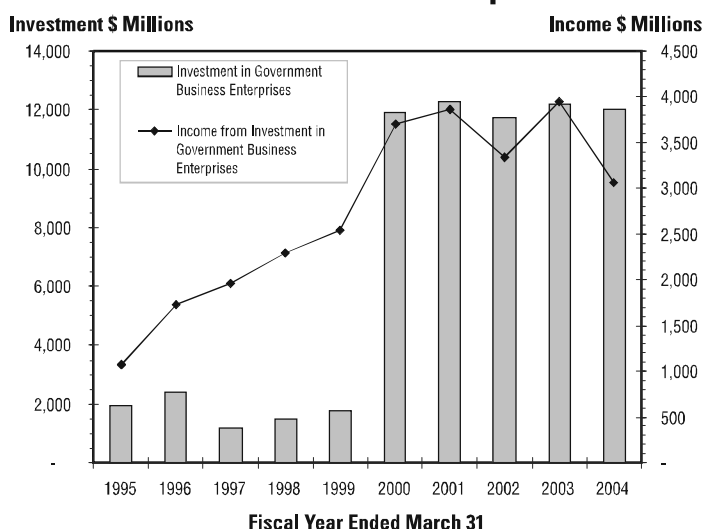
At March 31, 2004, the Province's investment in government business enterprises was \$12.0 billion. This investment yielded \$3.1 billion in net income for the government. The majority of income from investment in government business enterprises comes from four government business enterprises:

2003–04 Investment in Government Business Enterprises (\$ Millions)	Net Investment	Net income (loss)
Hydro One Inc. (HOI)	4,336	382
Ontario Power Generation Inc. (OPG)	5,043	(399)
Liquor Control Board of Ontario (LCBO)	254	1,045
Ontario Lottery and Gaming Corporation (OLGC)	1,841	2,106
Other	556	(64)
Total	12,030	3,070

Note: This table includes adjustments to government business enterprises with a year-end other than March 31.

1. Ontario Municipal Economic Infrastructure Financing Authority was replaced by Ontario Strategic Infrastructure Financing Authority in fiscal year 2004–05.

1994-95 to 2003-04 Income from and Investment in Government Business Enterprises



HOI transmits and distributes electricity in Ontario. OPG generates and sells electricity in the Ontario wholesale market and in the interconnected markets. LCBO buys and resells alcoholic beverages and also regulates the purchase, sale and distribution of liquor. OLCG conducts lottery games and operates commercial casinos, charity casinos and slot machines at racetracks.

The chart shows the amount invested in government business enterprises included in the Consolidated Financial Statements and the income they returned. The sharp increase in

the size of the investment reflects restructuring of the electricity sector in 1999–2000, when the Province started to include HOI and OPG, hydro successor companies, in its Consolidated Financial Statements as government business enterprises. Ontario Hydro, the predecessor company, was not included in the statements of the Province.

Tangible Capital Assets

Tangible capital assets at March 31, 2004 totaled \$14.4 billion, an increase of \$427 million from \$13.9 billion at March 31, 2003.

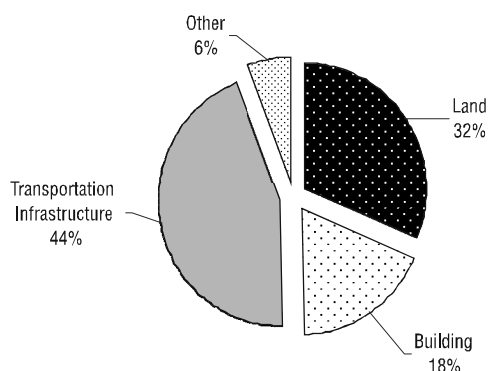
Tangible Capital Assets (\$ Millions)	2003–04	2002–03
Opening balance	13,942	13,299
Net investment during the year ¹	1,212	1,358
Amortization	(785)	(715)
Closing balance	14,369	13,942

¹ Net investment in 2003–04 included \$1,350 million acquisition cost, net of \$50 million proceeds on sale and \$88 million loss on sale of tangible capital assets.

Tangible capital assets include land, buildings, highways and bridges owned by the Province and all tangible capital assets owned by government organizations that are consolidated in the Province's Consolidated Financial Statements.

Ontario is implementing PSAB's recommendation on tangible capital assets in phases. Land, building and transportation infrastructure owned by the Province are estimated to account for more than 90 per cent of provincially owned tangible capital assets. The remainder, comprising such assets as leased

Composition of Tangible Capital Assets at March 31, 2004



premises, computers, equipment and furniture, will be reported in the future.

Of the \$1.4 billion invested in tangible capital assets in 2003–04, \$644 million was invested in highways, bridges and other transportation infrastructure, and the rest went primarily to buildings and land.

TRANSPORTATION INFRASTRUCTURE includes mainly highways, bridges and related structures and facilities.

Highways, totaling about 16,500 kilometers of highway representing 39,000 km of highway lanes, accounted for about 74 per cent of the \$6.3 billion net book value of transportation infrastructure at March 31, 2004. About 2,800 bridges account for most of the remaining 26 per cent of transportation infrastructure. About two-thirds of the investments in transportation infrastructure were spent on the rehabilitation of existing infrastructure of highways and bridges.

LAND includes land acquired for transportation infrastructure, parks, buildings, and other program use and land improvements that have an indefinite life. Land is not being amortized. Land excludes Crown lands.

BUILDINGS include more than 3,500 buildings that the Province owned at March 31, 2004. These are used mainly by ministries and agencies delivering government programs. They include office buildings, institutional buildings and other owned facilities.

OTHER includes mainly railway equipment, computer equipment and furniture owned by government organizations.

Liabilities

Debt

During 2003–04, the Province issued \$25.4 billion in long-term debt to refinance maturing debt and to finance the \$5.5 billion deficit. Almost three-quarters of this debt was raised in the Canadian domestic market. Ontario residents bought \$3.8 billion in Ontario Savings Bonds, while other domestic bond issues totaled \$14.9 billion. The remaining debt was issued outside

Canada and consists of \$2.8 billion from the U.S. market and \$3.9 billion from other sources.

The Ontario Financing Authority (OFA) manages the Province's debt and associated risks. Its prudent debt management principles include ensuring cost-effectiveness of borrowings, aiming for stable long-term borrowing costs, maintaining a smooth maturity profile, and limiting Ontario's exposure to currency and interest rate fluctuations. To achieve these goals, the OFA uses tools such as options, swaps and strict exposure limits. For more information, please refer to Note 1 on "Measurement Uncertainty", page 39 and Note 3 on "Risk Management and Derivative Financial Instruments", page 45 in the Consolidated Financial Statements.

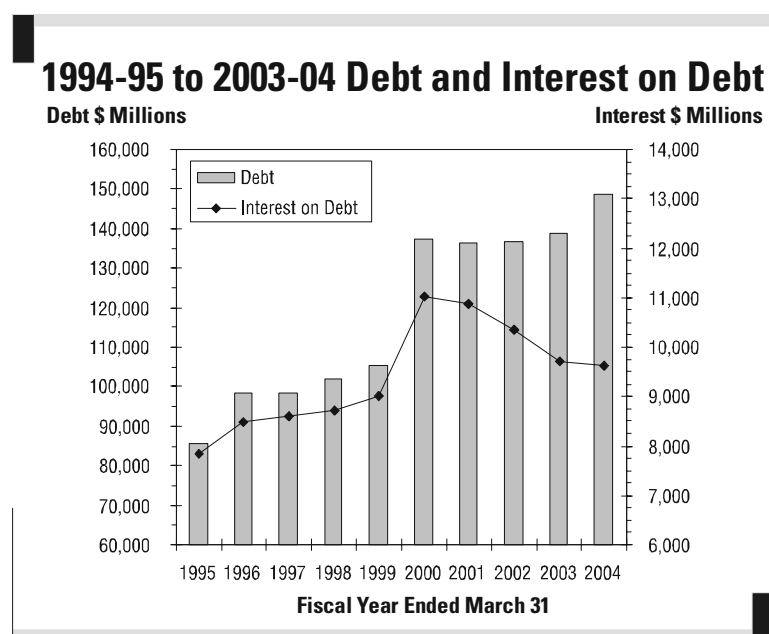
Over the past 10 years, outstanding total debt has increased by \$63.0 billion, from \$85.7 billion at March 31, 1995 to \$148.7 billion at March 31, 2004. Yearly

interest payments increased from \$7.8 billion in 1994–95 to \$9.6 billion in 2003–04. The slower growth in interest costs is largely a reflection of declining interest rates during that period.

The sharp increase in debt in the year ended March 31, 2000, reflects the addition of stranded debt from the electricity sector to the Province's obligations.

Other Liabilities

Liabilities other than provincial debt amounted to \$21.0 billion at March 31, 2004, compared to \$23.0 billion at March 31, 2003.



The decrease in liabilities other than provincial debt of \$2.0 billion or 9 per cent was mainly due to transfer of deposits with The Province of Ontario Savings Office (POSO) of \$2.2 billion to the new owner Desjardins Credit Union Inc. on April 1, 2003. Deposits with POSO of \$2.2 billion as at March 31, 2003 were included under "Other Liabilities" in the Statement of Financial Position to reflect the sale of POSO's operations to Desjardins.

Liabilities other than provincial debt include accounts payable and accrued liabilities, liabilities related to power purchase contracts, nuclear funding liability, retirement benefits liability and other liabilities such as deferred revenues.

Accounts payable and accrued liabilities of \$11.7 billion, which are reported in Schedule 4 to the Consolidated Financial Statements, make up the largest portion of this total.

Liabilities related to power purchase contracts and nuclear funding liability are explained in more detail in Note 4, page 47, of the Consolidated Financial Statements and in Notes 9, 10 and 16 of the Ontario Electricity Financial Corporation (OEFC) financial statements¹. During 2003–04, the nuclear funding liability decreased by \$1.1 billion primarily due to a contribution of \$1.2 billion towards discharging this liability.

Retirement benefits, another non-debt liability, decreased by \$481 million in 2003–04 primarily because the government's cash contribution in 2003–04 to retirement benefits plans exceeded its retirement benefits expense. The excess cash contribution reduced the liability.

Deferred revenues related to federal transfers increased by \$777 million in 2003–04 because the Province received the 2003 CHST Supplement and transfer for diagnostic and medical equipment in 2003–04. A draw down schedule is included in Note 6, page 51, of the Consolidated Financial Statements.

Net Debt

Net debt was \$138.6 billion at March 31, 2004, compared to \$132.6 billion at March 31, 2003. It was increased by the 2003–04 deficit of \$5.5 billion and a net investment in tangible capital assets of \$427 million.

Net debt is calculated as the difference between financial assets and liabilities. It represents the government's future revenue requirements to pay for past transactions and events.

The change in net debt in a year measures whether the revenues raised were sufficient to cover government spending including the acquisition of tangible capital assets. An increase in net debt means that more future revenues will be needed to pay for past transactions and events.

Net debt increased by \$47.9 billion in the last decade from \$90.7 billion at March 31, 1995, to \$138.6 billion at March 31, 2004.

¹. OEFC financial statements are included in Volume 2 of the 2003–04 Public Accounts.

Cash Flow

Cash and cash equivalents were \$5.2 billion at March 31, 2004, a decrease of \$1.0 billion from \$6.2 billion at March 31, 2003.

The major uses of cash were:

- Financing a deficit of \$5.5 billion;
- Transfer of \$2.2 billion POSO deposits to the new owner;
- A net increase in temporary investments of \$1.9 billion;
- Acquisition of tangible capital assets of \$1.4 billion; and
- Contribution of \$1.2 billion towards discharging the nuclear funding liability as explained in Note 4, page 47, of the Province's Consolidated Financial Statements.

In 2003–04, the Province's major source of cash flow was from a net increase in debt of \$10 billion.

APPENDIX A

The following selected economic, revenue and expense risks and sensitivities tables are reproduced from the 2004 Budget released in May 2004.

Selected Economic and Revenue Risks and Sensitivities		
Item/Key Components	2004–05 Assumption	Sensitivities
Total Taxation Revenues		
Revenue Base ¹	3.5 per cent growth	\$500 million change in revenues per percentage point change in nominal GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
Real GDP	2.3 per cent growth in 2004	
Nominal GDP	4.1 per cent growth in 2004	
GDP Deflator	1.7 per cent growth in 2004	
Personal Income Tax Revenues		
Tax Assessments		
Revenue Base	2.8 per cent growth in 2003 3.4 per cent growth in 2004–05	\$180 million change in 2004–05 revenues for each percentage point change in 2003 PIT. ²
Key Economic Assumptions		
Employment	1.7 per cent growth in 2004	\$220 million change in 2004-05 revenues for each percentage point change in wages and salaries growth.
Wages and Salaries	3.1 per cent growth in 2004	
Unincorporated Business Income	5.9 per cent growth in 2004	
Key Revenue Assumptions		
Net Capital Gains Income	4.4 per cent growth in 2004	\$5 million change in revenue per one percentage point change in net capital gains income. \$10 million change in revenue per one percentage point change in RRSP deductions.
RRSP Deductions	4.9 per cent growth in 2004	
Retail Sales Tax Revenues		
Revenue Base	4.6 per cent growth	\$90 million change in revenue per percentage point change in nominal consumption expenditure growth.
Includes:		
Taxable Consumer Spending	3.8 per cent growth	
Other Taxable Spending	5.7 per cent growth	
Key Economic Assumptions		
Retail Sales	3.5 per cent growth in 2004	
Nominal Consumption Expenditure	4.0 per cent growth in 2004	

Selected Economic and Revenue Risks and Sensitivities (Continued)		
Item/Key Components	2004–05 Assumption	Sensitivities
Corporations Tax Revenues		
Revenue Base	3.5 per cent growth	\$45 million change in revenue per percentage point change in pre-tax corporate profit growth.
Corporate Profits	5.8 per cent growth in 2004	
2003–04 tax assessment refunds ³	\$1.2 billion payable	\$12 million change in revenue per one percentage point change in 2003-04 refunds.
Employer Health Tax Revenues		
Revenue Base	3.0 per cent growth	\$30 million change in revenue per percentage point change in wages and salaries growth.
Wages and Salaries	3.1 per cent growth in 2004	
Ontario Health Premium Revenue		
Revenue Base	4.3 per cent growth	\$20 million change in revenue per percentage point change in personal income growth.
Personal Income	3.4 per cent growth in 2004	
Gasoline Tax Revenues		
Revenue Base	2.0 per cent growth	\$8 million change in revenue per one cent per litre change in prices.
Gasoline pump prices	72 cents per litre	
Fuel Tax Revenues		
Revenue Base	5.8 per cent growth	\$10 million change in revenue per percentage point change in real GDP growth.
Real GDP	2.3 per cent growth in 2004	
Land Transfer Tax Revenues		
Revenue Base	3.9 per cent growth	\$10 million change in revenue per percentage point change in both the number and prices of housing resales.
Housing Resales	3.6 per cent growth in 2004	
Resale Prices	5.5 per cent growth in 2004	
Health and Social Transfers		
Canada-wide Revenue Base	\$20.6 billion	\$30 million change in revenue per one-tenth percentage point change in population share.
Ontario Population Share	38.8 per cent	
Ontario PIT Base Share	44.0 per cent	\$10 million change in revenue per one-tenth percentage point change in PIT base share.
Ontario Revenue Share	37.0 per cent	

¹ Revenue base is revenues excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.

² Ontario 2003 PIT is currently a forecast estimate because 2003 tax returns are currently being assessed by Canada Revenue Agency.

³ Corporations Tax refunds arising during 2003–04 are still subject to considerable uncertainty because a very high proportion of corporations have until June 30, 2004 to file their 2003 tax return.

¹ Revenue base is revenues excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.

² Ontario 2003 PIT is currently a forecast estimate because 2003 tax returns are currently being assessed by Canada Revenue Agency.

³ Corporations Tax refunds arising during 2003–04 are still subject to considerable uncertainty because a very high proportion of corporations have until June 30, 2004 to file their 2003 tax return.

Expense Risks and Sensitivities

Many programs delivered by the Province are subject to potential risks and cost drivers such as utilization growth or enrolment and caseload changes. The following sensitivities are based on averages for program areas and might change depending on the nature and composition of the potential risk.

Selected Expense Risks and Sensitivities		
Program	2004–05 Assumption	Sensitivities
Hospitals	Annual growth of 4.3 per cent	One per cent change in hospital funding: \$113 million.
Drug Programs	Annual growth of 8.3 per cent (in health portion)	One per cent change in utilization of all drug programs: \$25 million.
Home Care/Community Services	Over 15.6 million hours of homemaking and support services	One per cent change in hours of homemaking and support services: \$4 million.
	7.9 million nursing and professional visits	One per cent change in nursing and professional visits: \$5 million.
Long-Term Care Facilities	Approximately 74,400 long-term care facility beds	Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care facility is over \$33,000. One per cent change in number of beds: \$25 million.
Elementary and Secondary Schools	Almost 2 million average daily pupil enrolment	One per cent enrolment change: \$160 million.
College Students	151,000 full-time students	One per cent enrolment change: \$6 million.
University Students	295,000 full-time students	One per cent enrolment change: \$20 million.
Ontario Works	196,000 average annual caseload	One per cent caseload change: \$15 million.
Ontario Disability Support Program	225,000 average annual caseload	One per cent caseload change: \$22 million.
Judicial System	2.8 million adult inmate days per year	Average cost \$150 per inmate per day. One per cent change in inmate days: \$4 million.
Interest on debt	Average cost of borrowing is expected to be approximately 4.9 per cent.	The impact of a 100 basis-point change in borrowing rates is expected to be approximately \$150 million.

Compensation Costs

Compensation costs and wage settlements are key cost drivers and have a substantial impact on both the finances of broader public sector partners and the Province.

Sector	Cost of 1 per cent salary increase	Size of Sector
OHIP Payments to Physicians	\$58 million*	Over 21,000 physicians in Ontario, comprising 10,000 family doctors and 11,000 specialists.
Hospital Nurses	\$34 million*	Over 40,000 nurses in hospitals.
Elementary and Secondary School Staff	\$115 million**	Over 180,000 staff including teachers, principals, administrators, support and maintenance staff.
Ontario Public Service	\$45 million*	Over 60,000 public servants.
* Based on 2003–04.		
** One per cent increase to salary benchmarks in Grants for Student Needs based on 2003–04 school year.		

**CONSOLIDATED
FINANCIAL
STATEMENTS**



Auditor's Report

To the Legislative Assembly of the
Province of Ontario

I have audited the consolidated statement of financial position of the Province of Ontario as at March 31, 2004 and the consolidated statements of operations, change in net debt, and cash flow 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 Canadian 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. The 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, 2004 and the results of its operations, the changes in its net debt, and its cash flows for the year then ended in accordance with accounting principles recommended for governments by the Canadian Institute of Chartered Accountants.

Toronto, Ontario
August 20, 2004

Jim McCarter, CA
Assistant Provincial Auditor

Province of Ontario
Consolidated Statement of Operations

For the year ended March 31 (\$ Millions)	Budget¹ 2004	Actual 2004	Actual 2003
Revenues (Schedule 1)			
Personal Income Tax	19,905	18,301	18,195
Retail Sales Tax	14,885	14,258	14,183
Corporations Tax	6,845	6,658	7,459
Employer Health Tax	3,805	3,753	3,589
Gasoline and Fuel Taxes	3,075	2,945	2,988
Other Taxes	3,130	3,233	3,137
Total Taxation	51,645	49,148	49,551
Government of Canada	10,177	9,893	8,894
Income from Investment in Government Business			
Enterprises (Schedule 7)	4,416	3,070	3,942
Other	7,898	6,289	6,504
	74,136	68,400	68,891
Expenses (Schedules 2 and 3)			
Health Care	27,993	29,218	26,139
Education and Training	14,171	13,918	12,788
Interest on Debt	9,963	9,604	9,694
Social Services	8,650	8,645	8,296
Environment, Resources and Economic Development	5,605	5,846	5,361
Justice	2,613	2,936	2,817
General Government	4,141	3,716	3,679
	73,136	73,883	68,774
Reserve	1,000		
Annual (Deficit) Surplus	—	(5,483)	117
Accumulated Deficit at beginning of year		(118,705)	(132,121)
Less: Tangible Capital Assets at beginning of year		—	13,299
Accumulated Deficit at end of year	—	(124,188)	(118,705)

See accompanying Notes and Schedules to the Financial Statements.

¹ Fiscal plan for the year ended March 31, 2004 per 2003 Budget.

Province of Ontario
Consolidated Statement of Financial Position

As at March 31	2004	2003
(\$ Millions)		
Liabilities		
Accounts Payable and Accrued Liabilities (Schedule 4)	11,741	11,061
Debt (Note 2)	148,357	138,472
Unamortized Foreign Exchange Gains	376	224
	148,733	138,696
Power Purchase Contracts (Note 4)	4,021	4,125
Nuclear Funding Liability (Note 4)	1,916	2,974
Retirement Benefits (Note 5)	656	1,137
Other Liabilities (Note 6)	2,708	3,656
	169,775	161,649
Financial Assets		
Cash and Cash Equivalents	5,175	6,234
Temporary Investments (Note 7)	2,964	1,018
Accounts Receivable (Schedule 5)	4,722	3,978
Loans Receivable	5,072	5,210
Other Assets (Note 2)	1,255	391
Investment in Government Business Enterprises (Schedule 7)	12,030	12,171
	31,218	29,002
Net Debt	(138,557)	(132,647)
Non-Financial Assets		
Tangible Capital Assets (Note 8)	14,369	13,942
Accumulated Deficit	(124,188)	(118,705)
Contingent Liabilities (Note 9) and Commitments (Note 10)		
See accompanying Notes and Schedules to the Financial Statements.		

Province of Ontario

Consolidated Statement of Change in Net Debt

For the year ended March 31	2004	2003
(\$ Millions)		
Annual (Deficit) Surplus	(5,483)	117
Acquisition of Tangible Capital Assets	(1,350)	(1,323)
Reclassification of Property Held for Sale	—	(97)
Amortization of Tangible Capital Assets (Note 8)	785	715
Proceeds on Sale of Tangible Capital Assets	50	112
Loss (Gain) on Sale of Tangible Capital Assets	88	(50)
	(427)	(643)
Increase in Net Debt	(5,910)	(526)
Net Debt at beginning of year	(132,647)	(132,121)
Net Debt at end of year	(138,557)	(132,647)
See accompanying Notes and Schedules to the Financial Statements.		

Province of Ontario
Consolidated Statement of Cash Flow

For the year ended March 31
(\$ Millions)

2004 **2003**

Operating transactions

Annual (Deficit) Surplus **(5,483)** 117

Amortization of Tangible Capital Assets (Note 8) **785** 715

Loss (Gain) on Sale of Tangible Capital Assets **88** (50)

Income from Investment in Government Business Enterprises
(Schedule 7) **(3,070)** (3,942)

Remittances from Government Business Enterprises (Schedule 7) **3,211** 3,502

Decrease in Liability for Retirement Benefits (Note 5) **(481)** (648)

Decrease in Power Purchase Contracts (Note 4) **(104)** (161)

(Decrease) Increase in Nuclear Funding Liability (Note 4) **(1,058)** 162

Increase in Accounts Payable and Accrued Liabilities (Schedule 4) **680** 248

(Decrease) Increase in Other Items **(2,418)** 3,240

Cash provided by (applied to) Operating Transactions **(7,850)** 3,183

Capital transactions

Acquisition of Tangible Capital Assets **(1,350)** (1,323)

Proceeds from Sale of Tangible Capital Assets **50** 112

Cash applied to Capital Transactions **(1,300)** (1,211)

Investing Transactions

(Increase) Decrease in Temporary Investments (Note 7) **(1,946)** 1,336

Cash provided by (applied to) Investing Transactions **(1,946)** 1,336

Financing transactions

Debt Issued **28,178** 19,238

Debt Retired **(18,141)** (17,270)

Decrease in Deposits with the Province of Ontario Savings Office **—** (2,438)

Cash provided by (applied to) Financing Transactions **10,037** (470)

Net (Decrease) Increase in Cash and Cash Equivalents **(1,059)** 2,838

Cash and Cash Equivalents at Beginning of Year **6,234** 3,396

Cash and Cash Equivalents at End of Year **5,175** 6,234

See accompanying Notes and Schedules to the Financial Statements

Notes to the Consolidated Financial Statements

(all tables in millions of dollars)

I. Summary of Significant Accounting Policies

Basis of Accounting

The Consolidated Financial Statements are prepared in accordance with the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA) and, where applicable, the recommendations of the Accounting Standards Board (AcSB) of the CICA.

Reporting Entity

These financial statements report the activities of the Consolidated Revenue Fund combined with those organizations that are accountable for the administration of their financial affairs and resources, either to a minister of the government or directly to the Legislature, and that are owned or controlled by the government. These government organizations are individually consolidated provided they meet one of the following criteria: i) their revenues, expenses, assets or liabilities are greater than \$50 million, or ii) their outside sources of revenues, deficit or surplus are greater than \$10 million. A listing of these organizations is provided in Schedule 6. The activities of all other organizations are reflected in these financial statements through the accounts of the ministries responsible for them. Trusts administered by the government on behalf of other parties are excluded from the

reporting entity but are disclosed in Note 11.

Principles of Consolidation

Government organizations, except for government business enterprises, are consolidated on a line-by-line basis with the Consolidated Revenue Fund in these financial statements. Where necessary, adjustments are made to present the accounts of these organizations on a basis consistent with the accounting policies described below, and to eliminate significant inter-organization accounts and transactions.

Government business enterprises are defined as those government organizations that i) have the financial and operating authority to carry on a business, ii) have as their principal activity and source of revenue the selling of goods and services to individuals and non-government organizations and iii) are able to maintain their operations and meet their obligations from revenues generated outside the government reporting entity. The activities of government business enterprises are recorded in the financial statements using the modified equity method. Under this method, government business enterprises are reported in accordance with the accounting principles generally accepted for business enterprises. Their combined net assets are included in the

financial statements as Investment in Government Business Enterprises on the Consolidated Statement of Financial Position and their combined net income is shown as a separate item on the Consolidated Statement of Operations.

Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount.

Measurement uncertainty in these financial statements and notes thereto exists in the valuation of the power purchase contracts, the accruals for pension and other retirement benefits obligations, the value of tangible capital assets, and the accruals for personal income and corporations tax revenues.

The nature of the uncertainty in the valuation of the power purchase contracts arises from fluctuations in market prices which would impact this liability. The uncertainty related to pension and other retirement benefit accruals arises because actual results may differ significantly from the Province's best estimate of expected results. Uncertainty related to the accrual for personal income tax and corporations tax revenues arises because of the possible differences between the estimated and actual economic growth and the impact of future tax assessments on taxes receivable. Uncertainty in the value

of tangible capital assets exists because estimates of historical cost are used when actual cost is unknown and because of differences between estimated useful lives and actual useful lives.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available.

Revenues

Revenues are recognized in the fiscal year that the events giving rise to the revenues occur and they are earned. Amounts received or receivable prior to the end of the year, which relate to revenues that will be earned in a subsequent fiscal year, are deferred and reported as liabilities.

Expenses

Expenses are recognized in the fiscal year that the events giving rise to the expense occur and resources are consumed. Expenses include:

- The incurrence of liabilities for goods or services consumed,
- The amortization of tangible capital assets,
- Losses in the value of assets,
- Interest accruing on debt, and
- Transfer payments authorized and owing to recipients.

Transfer payments are recognized in the year during which the payment is authorized, all eligibility criteria are met and a reasonable estimate of the amount can be made.

Interest on Debt includes the following: i) interest on outstanding debt net of interest income on investments and loans; ii) amortization of foreign exchange gains or losses; iii) amortization of debt discounts, premiums and commissions; and iv) amortization of deferred hedging gains and losses.

Retirement benefits (including pensions) expenses are recognized as expenses over the years in which retirement benefits are earned by employees. These expenses are the government's share of the cost of retirement benefits including the current year's cost of benefits, interest on the net retirement benefits liability or surplus, amortization of actuarial gains or losses, and other adjustments.

The cost of buildings and transportation infrastructure owned by the Province are amortized and recognized as expenses over their estimated useful lives on a straight line basis. Amortization of tangible capital assets owned by government organizations consolidated in these financial statements is also included in expenses.

The Province is phasing in the implementation of PSAB recommendations on tangible capital assets. Consequently, the costs of acquisition of other tangible capital assets owned by the Province, such as furniture and vehicles, are recorded as expenses. Also, for significant capital leases entered into by the Province, an amount equal to the present value of the minimum lease payments required over the

term of the lease is recorded as an expense at the inception of the lease, with an offsetting liability recorded for the lease obligation.

Liabilities

Liabilities are recorded to the extent that they represent obligations of the government to outside parties as a result of events and transactions occurring prior to the end of the fiscal year.

Liabilities include probable losses on loan guarantees issued by the government, and contingencies when it is likely that a loss will be realized and the amount can be reasonably determined.

Liabilities also include obligations to government business enterprises.

Debt

Debt is comprised of treasury bills, commercial paper, medium and long-term notes, savings bonds, debentures and loans.

Debt denominated in foreign currencies that has been hedged is recorded at the Canadian dollar equivalent using the rates of exchange established by the terms of the hedge agreements. Other foreign currency debt, liabilities and assets are translated to Canadian dollars at year-end rates of exchange and any exchange gains or losses are amortized over the remaining term to maturity.

The Province uses derivative financial instruments (derivatives) for the purposes of minimizing

interest costs and to manage risk. The Province does not use derivatives for speculative purposes. Derivatives are financial contracts, the value of which is derived from underlying instruments. Gains or losses arising from derivative transactions are deferred and amortized over the remaining life of the related debt issue.

Retirement Benefits

The liability for retirement benefits represents the government's share of the actuarial present values of retirement benefits attributed to services rendered by employees and former employees, less its share of the assets of the plans. In addition, the liability includes the Province's share of the unamortized balance of actuarial gains or losses, and other adjustments primarily for differences between the fiscal year-ends of the retirement benefit plans and the Province.

The liability for retirement benefits is calculated on an actuarial basis using the government's best estimates of future inflation rates, investment returns, employee salary levels and other underlying assumptions. When actual plan experience differs from that expected, or when assumptions are revised, actuarial gains and losses arise. These gains and losses are amortized over the average remaining service life of plan members.

Assets

Assets are resources controlled by the government from which it will derive future benefits. Assets are recognized in the year the events giving rise to the government's control of the benefit occur.

Financial Assets

Financial assets are resources that can be used to discharge existing liabilities or finance future operations. They include cash, temporary investments, accounts receivable, loans receivable, advances, and investments in government business enterprises.

Temporary investments are recorded at the lower of cost or fair value.

Accounts receivables are recorded at cost. Valuation allowances are made when collectibility is considered doubtful.

Loans receivable with significant concessionary terms are considered in part as grants and are recorded at the date of issuance at face value discounted by the amount of the grant portion. The grant portion is recognized as an expense at the date of issuance of the loan. The amount of the loan discount is amortized to revenue over the term of the loan. Loans receivable include amounts owing from government business enterprises.

Investment in Government Business Enterprises represents the net assets of government business enterprises recorded on the modified equity basis as described under Principles of Consolidation.

Tangible Capital Assets

Tangible capital assets are non-financial assets. Non-financial assets are resources which will be consumed in the normal course of operations or in the delivery of government services.

Tangible capital assets are recorded at historical cost. Historical cost includes the costs directly related to the acquisition, design, construction, development, improvement or betterment of tangible capital assets. Cost includes overheads directly attributable to construction and development but excludes interest. Estimated historical cost is used to record existing tangible capital assets when actual cost is unknown.

As noted previously, the Province is phasing in the implementation of PSAB recommendations on tangible

capital assets. Thus the following categories are included under tangible capital assets and recorded at historical cost: land, buildings and transportation infrastructure owned by the Province; and all tangible capital assets owned by government organizations that are consolidated in these financial statements.

Maintenance and repair costs are recognized as an expense when incurred. Betterments or improvements that significantly increase or prolong the service life or capacity of a tangible capital asset are capitalized.

Trust Funds

Trust funds that have been deposited into the Consolidated Revenue Fund are included in Other Liabilities on the Consolidated Statement of Financial Position.

2. Debt

The Province borrows in both domestic and international markets, largely to refinance maturing debt. At March 31, 2004, debt was \$148.4 billion (2003, \$138.5 billion). Debt was comprised of Debt Issued for Provincial Purposes of \$120.8 billion (2003, \$112.3 billion) and Ontario Electricity Financial

Corporation (OEFC) debt of \$27.6 billion (2003, \$26.1 billion). The table on page 43 presents the maturity schedule of the Province's outstanding debt, by currency of repayment, expressed in Canadian dollars, and reflects the effects of related derivative contracts.

Debt							
As at March 31						2004	2003
Currency	Canadian Dollar	U.S. Dollar	Japanese Yen	Euro¹	Other Currency²	Total	Total
Fiscal Year Payable							
2004							\$ 17,662
2005	\$ 16,190	2,959	614	310	536	\$ 20,609	14,449
2006	12,013	6,747	675	46	—	19,481	18,508
2007	9,261	2,437	460	—	—	12,158	7,909
2008	6,039	2,610	320	—	299	9,268	9,768
2009	14,305	3,674	—	795	207	18,981	—
1–5 years	57,808	18,427	2,069	1,151	1,042	80,497	68,296
6–10 years	23,400	3,408	938	2,749	483	30,978	36,732
11–15 years	1,655	—	63	—	—	1,718	2,022
16–20 years	10,231	—	—	—	—	10,231	7,376
21–25 years	14,368	—	—	—	—	14,368	12,057
26–50 ³ years	10,565	—	—	—	—	10,565	11,989
Total^{4, 5}	\$118,027	21,835	3,070	3,900	1,525	\$148,357	\$138,472
Debt Issued for Provincial Purposes							
OEFC Debt	94,971	17,645	3,070	3,900	1,218	120,804	112,340
Total^{4, 5}	23,056	4,190	—	—	307	27,553	26,132
Total^{4, 5}	\$118,027	21,835	3,070	3,900	1,525	\$148,357	\$138,472
Effective interest rates (weighted average)							
2004	7.05%	5.47%	5.85%	5.80%	5.05%	6.74%	—
2003	7.47%	6.00%	6.26%	6.61%	4.74%	—	7.18%

¹ Euro includes debt issued in legacy currencies (Deutsche mark, French franc and Netherlands guilders).

² Other currencies comprise: Australian dollar, Norwegian kroner, New Zealand dollar, U.K. pound, Swiss franc and Hong Kong dollar.

³ The longest term to maturity is to March 1, 2045.

⁴ Total foreign currency denominated debt as at March 31, 2004, was \$30.3 billion (2003, \$28.4 billion). Of that, \$0.7 billion (2003, \$2.3 billion) was unhedged U.S. dollar denominated debt and \$0.9 billion (2003, \$1.1 billion) was unhedged Japanese yen denominated debt; the remaining balance amounted to \$28.7 billion or 94.6% (2003, \$25.0 billion or 88.1%) was fully hedged to Canadian dollars.

⁵ Total debt includes issues totalling \$3.0 billion (2003, \$3.9 billion) which have embedded options exercisable by either the Province or the bond holder under specific conditions.

Debt As at March 31	2004	2003
Debt Payable to:		
Public Investors	\$ 121,992	\$ 111,185
Canada Pension Plan Investment Fund	10,233	10,746
Ontario Teachers' Pension Plan	9,487	10,387
Public Service Pension Plan	3,052	3,200
Ontario Public Service Employees Union Pension Fund	1,450	1,520
Canada Mortgage and Housing Corporation	1,047	1,078
Others ¹	1,096	356
Total	\$148,357	\$138,472

¹ Others include debt payable to Ontario Municipal Employees' Retirement Fund, Colleges of Applied Arts and Technology Pension Plan and Ryerson Retirement Pension Plan. It also includes the school board trust debt and debt of Ontario Immigrant Investor Corporation and Royal Ontario Museum.

Fair value of debt issued approximates amounts at which debt instruments could be exchanged in a current transaction between willing parties. In valuing the Province's debt, fair value is estimated using discounted cash flows and other valuation techniques and is compared to public market quotations where available. These estimates are affected by the assumptions made concerning discount rates and the amount and timing of future cash flows.

The estimated fair value of debt at March 31, 2004 was \$167.2 billion (2003, \$155.7 billion). This is higher than the book value of \$148.4 billion (2003, \$138.5 billion) because current interest rates are generally lower than the interest rates at which the debt was issued. The fair value of debt does not reflect the effect of related derivative contracts.

School Board Trust Debt

A school board trust was created in June 2003 to permanently refinance debt incurred by 55 school boards to support their capital projects prior to the introduction of the student focused funding model in 1998. The trust issued 30-year sinking fund debentures amounting to \$891 million in June 2003. The trust provided \$882 million of the proceeds to the 55 school boards in exchange for the irrevocable right to receive future transfer payments from the Province related to this debt. The \$882 million advances to school boards are included in Other Assets and the \$891 million in debentures are included in Debt Payable to Others in the above table. These amounts will be reduced over the 30-year period by the transfer payments made by Ministry of Education to the Trust under the School Board Operating Grant program.

3. Risk Management and Derivative Financial Instruments

The Province employs various risk management strategies and operates within strict risk exposure limits to ensure exposure to risk is managed in a prudent and cost effective manner. A variety of strategies are used, including the use of derivative financial instruments ("derivatives").

Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which the Province agrees with another party to exchange cash flows based upon one or more notional amounts using stipulated reference interest rates for a specified period. Swaps allow the Province to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures, options, caps and floors.

Foreign exchange or currency risk is the risk that foreign currency debt principal and interest payments and foreign currency transactions will vary in Canadian dollar terms due to fluctuations in foreign exchange rates. To manage currency risk, the Province uses derivative contracts including foreign exchange forward contracts, futures, options and swaps to convert foreign currency cash flows into Canadian dollar

denominated cash flows. Most of the derivative contracts hedge the underlying debt by matching all the critical terms to achieve effectiveness. In the instances where the term of foreign exchange forward contracts used for hedging is shorter than the term of the underlying debt, the effectiveness is maintained by continuously rolling the foreign exchange forward contract over the remaining term of the underlying debt, or until replaced with a long term derivative contract.

The current policy allows unhedged foreign currency debt principal payments and foreign currency transactions to reach a maximum of 5 per cent of Debt Issued for Provincial Purposes and OEFC debt. At March 31, 2004, the respective unhedged levels were 1.2 and 0.1 per cent (2003, 1.5 and 6.3 per cent). For every one-cent increase in the Canadian dollar versus the U.S. dollar, there would be an increase in debt amount of \$6 million and an increase in Interest on Debt of \$2 million. For every one Japanese yen decrease versus the Canadian dollar, there would be an increase in debt amount of \$11 million and an increase in Interest on Debt of \$2.5 million. Total foreign exchange gains recognized in the Statement of Operations for 2003-04 were \$42 million (2002-03, \$20 million).

Debt servicing costs may also vary as a result of changes in interest rates. In respect of Debt Issued for Provincial Purposes, the risk is measured as interest rate resetting risk which is

the sum of floating rate exposure, net of liquid reserves, and fixed rate debt maturing within the next 12-month period as a percentage of Debt Issued for Provincial Purposes. In respect of OEFC debt, the risk is the floating rate exposure as a percentage of OEFC debt. Depending on market conditions, the Province creates or reduces its exposure to interest rate changes by issuing or retiring short term debt, or by entering into or closing out derivative positions. The current policy limits interest rate resetting risk for Debt Issued for Provincial Purposes to a maximum of 25 per cent and floating rate risk for OEFC debt to a maximum of 20 per cent. As at March 31, 2004, interest rate resetting risk for Debt Issued for Provincial Purposes was 11.4 per cent (2003, 9.3 per cent) while floating rate risk for OEFC debt was 8.0 per cent (2003, 13.5 per cent). A one percent (100 basis points) increase in interest rates would result in an increase in

Interest on Debt of \$150 million (2003, \$124 million).

Liquidity risk is the risk that the Province will not be able to meet its current short-term financial obligations. To reduce liquidity risk, the Province maintains liquid reserves, that is, cash and temporary investments (Note 7), at levels that will meet future cash requirements and will give the Province flexibility in the timing of issuing debt. In addition, the Province has short-term note programs as alternative sources of liquidity.

The table below presents a maturity schedule of the Province's derivatives, by type, outstanding at March 31, 2004, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts and are not indicative of credit risk, market risk or actual cash flows.

Derivative Portfolio Notional Value

As at March 31

							2004		2003
Maturity in Fiscal Year	2005	2006	2007	2008	2009	6 - 10 Years	Over 10 Years	Total	Total
Swaps:									
Interest rate	\$5,490	\$13,584	\$5,373	\$6,862	\$9,855	\$10,711	\$3,138	\$55,013	\$49,043
Cross currency	6,437	8,256	3,165	2,934	3,790	6,040	—	30,622	28,699
Forward foreign exchange contracts	2,755	—	—	—	—	—	—	2,755	2,081
Futures	62	—	—	—	—	—	—	62	100
Options	90	—	—	—	—	—	—	90	—
Caps and Floors	50	225	205	—	—	—	—	480	50
Total	\$14,884	\$22,065	\$8,743	\$9,796	\$13,645	\$16,751	\$3,138	\$89,022	\$79,973

The use of derivatives introduces credit risk, which is the risk of a counterparty defaulting on contractual derivative obligations in which the Province has an unrealized gain. The table below presents the

credit risk associated with the derivative financial instrument portfolio, measured through the replacement value of derivative contracts, at March 31, 2004.

Credit Risk Exposure As at March 31	2004	2003
Gross credit risk exposure ¹	\$ 2,625	\$ 2,665
Less: Netting ²	(2,264)	(1,976)
Net Credit Risk Exposure	\$ 361	\$ 689

¹ Gross credit risk exposure is the gross credit exposure to counterparties with net positive exposures, (that is, the Province has an unrealized gain).

² "Netting" is the gross negative credit exposure to counterparties with net positive credit exposures covered by master agreements providing for close out netting when contracts do not have co-terminus settlement dates.

The Province manages its credit risk exposure from derivatives by, among other things, dealing only with high credit quality counterparties and regularly monitoring compliance to credit limits. In addition, the Province enters into contractual agreements ("master agreements") that provide for termination netting and if applicable payment netting with virtually all of its

counterparties. Gross credit risk exposure represents the loss that the Province would incur if every counterparty to which the Province had credit risk exposure were to default at the same time, and the contracted netting provisions were not exercised or could not be enforced. Net credit risk exposure is the loss including the mitigating impact of these netting provisions.

4. Ontario Electricity Financial Corporation Liabilities

The Ontario Electricity Financial Corporation (OEFC) is consolidated as a government organization in these financial statements. In addition to the current liabilities and long term debt of OEFC, recorded in these financial statements under Accounts Payable and Accrued Liabilities and Debt respectively, the following liabilities of OEFC are also reflected in these financial statements:

i) Power Purchase Contracts

Power purchase contracts and related loan agreements were entered into by Ontario Hydro with non-utility generators (NUGs) located in Ontario. As the legal continuation of Ontario Hydro, OEFC is the counterparty to these contracts. A liability arises because these contracts, expiring on various dates to 2048, provide for the purchase of

power at prices that are expected to be in excess of the market price.

The NUG liability had been valued at \$4.3 billion on a discounted cash-flow (DCF) basis since Ontario Hydro was continued as OEFC on April 1, 1999. As the electricity market was opened in May 2002, the DCF model was updated as of March 31, 2003 which reduced the estimated liability from \$4.3 billion to \$3.7 billion. The revaluation change is being amortized to operations over a ten year period. In addition, each year, interest at the DCF rate is added to the liability and the estimated in-year loss in the DCF model is deducted from the liability. This results in an ending liability of \$4.0 billion (2003, \$4.1 billion).

ii) Nuclear Funding Liability

OEFC as the continued Ontario Hydro assumed a liability in the amount of \$2.4 billion representing nuclear waste management and asset removal liabilities that were incurred prior to April 1, 1999. The Province and Ontario Power Generation (OPG) are parties to the Ontario

Nuclear Funds Agreement (ONFA) to establish, fund and manage segregated funds to ensure that sufficient funds are available to pay for costs of nuclear waste management and station decommissioning.

The board of directors of OEFC approved the funding of the Decommissioning Segregated Fund, established by OPG, thus discharging the nuclear funding liability over the next four years. OEFC contributed \$1.2 billion towards the fund liability on July 24, 2003.

Interest is accrued at a rate equal to the Ontario Consumer Price Index plus 3.25 per cent in accordance with the terms of ONFA which were finalized on July 24, 2003. Previously, interest had been accrued at an estimated rate of 5.75 per cent. The liability has been adjusted to reflect the finalized rate. A commitment-in-lieu of \$1.9 billion as at March 31, 2004 (2003, \$3.0 billion) has been provided to the Decommissioning Segregated Fund.

5. Retirement Benefits

Retirement Benefits Liability (Asset) As at March 31	2004	2004	2004	2003
	Pensions	Other Retirement Benefits	Total	Total
Obligation for retirement benefits	\$ 52,560	\$ 2,073	\$ 54,633	\$ 52,072
Less: plan fund assets	(57,858)	—	(57,858)	(55,907)
Unamortized actuarial gains (losses)	2,617	(99)	2,518	3,646
Adjustments ¹	1,363	—	1,363	1,326
Total	\$ (1,318)	\$ 1,974	\$ 656	\$ 1,137

¹ Adjustments consist of:

- i) differences for amounts reported by the pension plans at December 31, instead of the Province's year-end of March 31;
- ii) unamortized difference between employer and employee contributions for jointly sponsored pension plans;
- iii) unamortized employee contribution reductions for solely sponsored plans;
- iv) unamortized initial unfunded liabilities of jointly sponsored plans; and
- v) amounts payable by the Province that are reflected as contributions in the pension plan assets.

Retirement Benefits Expense For the year ended March 31	2004	2004	2004	2003
	Pensions	Other Retirement Benefits	Total	Total
Cost of retirement benefits	\$ 1,363	\$ 49	\$ 1,412	\$ 1,419
Amortization of actuarial losses (gains)	(347)	8	(339)	(417)
Employee contributions	(155)	—	(155)	(138)
Cost of (gain on) plan amendments	13	—	13	(29)
Recognition of unamortized actuarial losses (gains)	(13)	—	(13)	(87)
Interest expense (revenue)	(368)	105	(263)	(292)
Adjustments ¹	(111)	—	(111)	(116)
Total	\$ 382	\$ 162	\$ 544	\$ 340

¹ Adjustments consist of amortization of:

- i) the difference between employer and employee contributions for jointly sponsored pension plans;
- ii) employee contribution reductions for solely sponsored plans; and
- iii) initial unfunded liability of jointly sponsored pension plans.

Pensions

The Province is responsible for sponsoring several pension plans. It is the sole sponsor of the Public Service Pension Plan (PSPP) and joint sponsor of the Ontario Public Service Employees' Union (OPSEU) Pension Plan, and the Ontario Teachers' Pension Plan (OTPP).

These three plans are defined benefit plans that provide Ontario government employees and elementary and secondary school teachers and administrators with a guaranteed amount of retirement income. Benefits are based primarily on the best five-year average salary of members and their length of service, and are indexed to changes in the Consumer Price Index to provide protection against inflation. Plan members normally contribute between 7 and 9 per cent of their salary to these plans. The Province matches these contributions.

Funding of these plans is based on statutory actuarial funding valuations undertaken at least every three years. The Province contributed \$683 million to the OTPP in 2003–04 (2002–03, \$676 million), \$108 million to the PSPP (2002–03 \$75 million) and \$118 million to the OPSEU Pension Plan (2002–03, \$119 million). During calendar year 2003, the OTPP paid benefits, including transfers to other plans of \$3.2 billion (2002, \$3.1 billion), the PSPP paid \$770 million (2002, \$763 million) and the OPSEU Pension Plan paid \$476 million (2002, \$517 million). Under agreements between the Province and OPSEU, and between

the Province and the Ontario Teachers' Federation (OTF), gains and losses arising from statutory actuarial funding valuations are shared by the co-sponsors.

The government's best estimate of the future annual inflation rate used in the pension calculations is 2.5 per cent, the salary escalation rate is 3.5 per cent, the discount rate and the expected rate on return of pension plan assets are 7 per cent for OTPP, 6.5 per cent for PSPP and 6.75 per cent for OPSEU Pension Plan. Actuarial gains or losses are amortized over periods of 9 to 13 years.

The Province is also responsible for sponsoring the Ontario Teachers' Retirement Compensation Arrangement and the Public Service and OPSEU Supplementary Benefits Plans. Expenses and liabilities of these plans are included in the Retirement Benefits expense and Retirement Benefits liability reported in the financial statements.

Other Retirement Benefits

The Province provides dental, basic life insurance, supplementary health and hospital benefits to retired employees through a self-insured, unfunded defined benefit plan. The Province paid \$97 million for benefits under the plan in 2003–04 (2002–03, \$97 million).

The discount rate used in the other retirement benefits calculation for 2003–04 is 5.6 per cent, (2002–03, 6 per cent).

6. Other Liabilities

Other Liabilities As at March 31	2004	2003
Deferred Revenue:		
Federal Transfers	\$ 969	\$ 192
Vehicle & Driver Licences	324	209
Other	586	379
Total Deferred Revenue	1,879	780
Funds and Other	829	717
Province of Ontario Savings Office	—	2,159
Total	\$ 2,708	\$ 3,656

Other Liabilities include deferred revenues, pension and benefit funds related to the Provincial Judges Pension Fund and the Deputy Ministers' Supplementary Benefit Account, externally restricted funds

and other miscellaneous liabilities. At March 31, 2003, Other Liabilities included the Province of Ontario Savings Office (POSO) liabilities assumed by the purchaser of POSO on April 1, 2003 .

Deferred Revenue — Federal Transfers

For the year ended March 31	2001	2002	2003	2004	2005	2006	Total Transfer Received
2000–2001 CHST Supplement	\$379	\$190	\$191	\$192	\$ —	\$ —	\$ 952
2003–2004 CHST Supplement	—	—	—	386	387	194	967
Diagnostic/Medical Equipment	190	190	—	192	194	194	960
Total	\$569	\$380	\$191	\$770	\$581	\$388	\$2,879

The Canada Health and Social Transfer (CHST) Supplements and Diagnostic/Medical Equipment are federal transfers received by the Province that are intended to provide funding for provincial expenditures over several accounting periods. Accordingly, they are recognized as revenue by the Province in the periods identified by the federal government. These federal transfers have been used to fund health care

expenditures, including grants to hospitals for the purchase of medical equipment.

The Province provides a two-year vehicle licence plate and a multi-year (up to five years) driver licence renewal option. Amounts received under these options are recognized as revenue over the periods covered by the licences.

7. Temporary Investments

Temporary Investments As at March 31	2004	2003
Temporary investments	\$ 4,021	\$ 1,296
Add: assets purchased under resale agreements	1,565	1,003
Less: assets sold under repurchase agreements	(2,622)	(1,281)
Total	\$ 2,964	\$ 1,018

The fair value of temporary investments, including assets purchased and sold under resale and repurchase agreements, at March 31, 2004 is \$3.1 billion (2003, \$1.1 billion). Temporary investments primarily consist of investments in government bonds. Fair value is determined using quoted market prices.

A resale agreement is an agreement between two parties to purchase and subsequently resell a security at a specified price on a specified date. A repurchase agreement is an agreement between two parties to sell and subsequently repurchase a security at a specified price on a specified date.

8. Tangible Capital Assets

Tangible Capital Assets As at March 31	2004	2004	2004	2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 4,531	\$ —	\$ 4,531	\$ 4,316
Buildings	3,717	1,111	2,606	2,541
Transportation Infrastructure	10,820	4,477	6,343	6,190
Other	1,833	944	889	895
Total	\$ 20,901	\$ 6,532	\$ 14,369	\$ 13,942

Land includes land acquired for transportation infrastructure, parks, buildings, and other program use and land improvements that have an indefinite life and are not being amortized. Land excludes Crown lands acquired by right.

Buildings includes administrative and service structures, and buildings under construction, but leased premises are excluded.

Transportation infrastructure includes highways, railways, bridges and related structures and facilities, but excludes land and buildings.

Other includes railway equipment, computer equipment, vehicles, furniture, and administrative and service equipment owned by government organizations. Similar assets owned by the government will be included at a future date. Works of art and historical treasures including the Legislative Building are excluded from tangible capital assets.

All tangible capital assets, except buildings under construction, land and land improvements with an

indefinite life, are being amortized on a straight-line basis over their estimated useful lives. Amortization expense for the fiscal year 2003–04 totaled \$785 million (2002–03, \$715 million). The useful lives of the Province's tangible capital assets have been estimated as:

Buildings	20 to 40 years
Transportation infrastructure	10 to 60 years
Other	3 to 25 years

9. Contingent Liabilities

Obligations Guaranteed by the Province

The authorized limit for loans guaranteed by the Province as at March 31, 2004 was \$4.4 billion (2003, \$5.2 billion). The outstanding loans guaranteed and other contingencies amounted to \$3.4 billion at March 31, 2004 (2003, \$4.1 billion). A provision of \$397 million (2003, \$391 million) based on an estimate of the likely loss arising from guarantees under the Student Support Programs has been expensed and is reflected in the Accrued Liabilities for Transfer Payments (Schedule 4).

Ontario Nuclear Funds Agreement

The Province, Ontario Power Generation Inc. (OPG), a wholly owned subsidiary, and certain subsidiaries of OPG, are parties to the Ontario Nuclear Funds Agreement (ONFA), to establish, fund, and manage segregated funds to ensure sufficient funds are available to pay the costs of nuclear station decommissioning and nuclear

used fuel waste management. Under ONFA, the Province is liable to make payments should the cost estimate for nuclear used fuel waste management rise above specified thresholds, for a fixed volume of used fuel. The likelihood and amount by which the cost estimate could rise above these thresholds cannot be determined at this time. The cost estimate will be updated periodically, to reflect new developments in the management of nuclear used fuel waste.

As well, under ONFA, the Province guarantees a return of 3.25 per cent over the Ontario Consumer Price Index for the nuclear used fuel waste management fund. If the earnings on assets in that fund exceed the guaranteed rate, the Province is entitled to the excess.

On July 31, 2003, two agreements came into effect to satisfy the Canadian Nuclear Safety Commission (CNSC) licensing requirements for financial guarantees in respect of OPG's nuclear station

decommissioning and nuclear waste management obligations. One agreement, between the Province, OPG and the CNSC, gives the CNSC access to the segregated funds established under ONFA. The other agreement, between the Province and the CNSC, provides a direct provincial guarantee to the CNSC on behalf of OPG. This guarantee, for up to \$1.5 billion, relates to the portion of the decommissioning and waste management obligations not funded by the segregated funds. In return, the Province will receive from OPG an annual fee equal to 0.5 per cent of the value of the direct provincial guarantee.

Social Housing — Loan Insurance Agreements

For all non-profit housing projects in the provincial portfolio, the Province is liable to indemnify and reimburse the Canada Mortgage and Housing Corporation (CMHC) for any net costs, including any environmental liabilities, incurred as a result of project defaults, directly or indirectly,

through the Ministry of Municipal Affairs and Housing or the Ontario Housing Corporation.

At March 31, 2004, there were \$9.0 billion (2003, \$9.3 billion) of mortgage loans outstanding. As operating subsidies provided are sufficient to ensure that all mortgage payments can be made when due, default is unlikely. To date, there have been no claims for defaults on insured mortgage loans.

Claims Against the Crown

There are claims outstanding against the Crown of which 80 (2003, 77) are for amounts over \$50 million. These claims arise from legal action, either in progress or threatened, in respect of aboriginal land claims, breach of contract, damages to persons and property and like items, and are listed in Volume 1, 2003-2004 Public Accounts of Ontario, Section 3. The cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain.

10. Commitments

The nature of the government's activities results in significant multi-year contracts and obligations, including the following:

- Ontario Power Generation Inc.'s future contributions under the Ontario Nuclear Funds Agreement of \$4.6 billion, long

term debt repayment obligations of \$3.2 billion and fuel supply agreements of \$1.4 billion;

- Transfer payments for school board debt of \$1.0 billion; and
- Transfer payments for long-term care beds of \$2.5 billion.

The following table summarizes the government's total commitments.

Commitments As at March 31	2004	2003
Ontario Power Generation	\$ 9,569	\$ 8,333
Transfer payments	5,214	7,662
Leases	1,120	1,352
Construction Contracts	1,418	1,243
Other	2,500	2,437
Total Commitments	\$ 19,821	\$ 21,027

The following table summarizes the information presented above to indicate the minimum amounts required to satisfy obligations under

commitments each year from 2005 to 2009 inclusive, and a total for amounts due in the year 2010 and subsequent years.

Schedule of Minimum Payments As at March 31

Minimum Payments to be made in:	Ontario Power Generation	Transfer Payments	Leases	Construction Contracts	Other	Total
2005	\$ 1,309	\$ 1,068	\$ 133	\$ 1,288	\$ 857	\$ 4,655
2006	1,243	778	105	97	356	2,579
2007	1,489	478	93	32	294	2,386
2008	993	372	80	1	248	1,694
2009	1,215	285	73	—	183	1,756
2010 and thereafter	3,320	2,233	636	—	562	6,751
Total	\$ 9,569	\$ 5,214	\$ 1,120	\$ 1,418	\$2,500	\$19,821

11. Trust Funds Under Administration

Summary financial information from the most recent financial statements of trust funds under administration is provided below.

Workplace Safety and Insurance Board As at December 31	2003	2002
Assets	\$ 11,847	\$11,615
Liabilities	18,982	18,206
Unfunded Liability	(7,135)	(6,591)
Revenues	3,385	3,145
Expenditures	3,929	4,027
Surplus	(544)	(882)
Transfer of Electrical Utilities	—	(52)
Unfunded Liability, Beginning of Year	(6,591)	(5,657)
Unfunded Liability, End of Year	\$ (7,135)	\$ (6,591)

Other Trust Funds As at March 31, 2004	Assets	Liabilities	Fund Balance (Unfunded Liability)
The Public Guardian and Trustee for Province of Ontario	\$ 1,091	\$ 1,029	\$ 62
Motor Vehicle Accident Claims Fund	\$ 29	\$ 148	\$ (119)
Pension Benefits Guarantee Fund	\$ 617	\$ 724	\$ (107)
As at December 31, 2003	Assets	Liabilities	Fund Balance
Deposit Insurance Corporation of Ontario	\$ 68	\$ 7	\$ 61

Any unfunded liability of trusts under administration are not included in the Province's financial statements as they are the responsibility of external parties. The

most recent financial statements of these trusts are reproduced in Volume 2 of the Public Accounts of Ontario.

12. Comparative Figures

The comparative figures have been reclassified as necessary to conform to the 2004 presentation.

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Province of Ontario
Schedule 1: Revenues

For the year ended March 31 (\$ Millions)	Budget¹ 2004	Actual 2004	Actual 2003
Taxation			
Personal Income Tax	19,905	18,301	18,195
Retail Sales Tax	14,885	14,258	14,183
Corporations Tax	6,845	6,658	7,459
Employer Health Tax	3,805	3,753	3,589
Gasoline Tax	2,365	2,264	2,306
Tobacco Tax	1,260	1,350	1,183
Land Transfer Tax	785	909	814
Electricity Payments-In-Lieu of Taxes	890	627	711
Fuel Tax	710	681	682
Other Taxes	195	347	429
	51,645	49,148	49,551
Government of Canada			
Canada Health and Social Transfer	7,917	7,535	7,537
Social Housing	523	528	525
Health Reform Fund	386	387	—
Severe Acute Respiratory Syndrome (SARS) Compensation	—	330	—
Diagnostic/Medical Equipment	193	192	—
Indian Welfare Services Agreement	140	156	155
Infrastructure	405	150	97
Young Offenders Act	59	73	60
Employability Assistance for People with Disabilities	56	60	48
Bilingualism Development	64	58	75
Student Assistance	61	30	54
Other	373	394	343
	10,177	9,893	8,894
Income from Investment in Government Business Enterprises (Schedule 7)	4,416	3,070	3,942
Other			
Electricity Debt Retirement Charge	979	1,000	889
Vehicle and Driver Registration Fees	952	985	982
Local Services Realignment	711	731	642
Other Fees and Licences	543	594	606
Sales and Rentals	2,207	532	560
Power Sales	540	510	635
Liquor Licence Board of Ontario Revenues	477	488	530
Royalties	225	248	304
Independent Electricity Market Operator Revenue	153	152	175
Net Reduction of Power Purchase Contracts	99	104	161
Revenue Pool Residual	—	—	24
Miscellaneous	1,012	945	996
	7,898	6,289	6,504
Total Revenues	74,136	68,400	68,891

¹ Fiscal plan for the year ended March 31, 2004 per 2003 Budget.

Province of Ontario
Schedule 2: Expenses by Object

For the year ended March 31 (\$ Millions)	2004	2003
Transfer Payments	52,979	47,841
Interest on Debt	9,604	9,694
Salaries and Wages	4,126	3,915
Services	2,267	2,281
Power Purchases	797	786
Amortization of Tangible Capital Assets (Note 8)	785	715
Employee Benefits	710	649
Supplies and Equipment	698	666
Retirement Benefits (Note 5)	544	340
Transportation and Communication	375	390
Electricity Consumer Price Protection Fund	253	665
Other	745	832
Total Expenses	73,883	68,774

Province of Ontario
Schedule 3: Expenses by Ministry

For the year ended March 31 (\$ Millions)	Budget¹ 2004	Actual 2004	Actual 2003
Agriculture and Food	623	674	684
Attorney General	1,062	1,223	1,095
Board of Internal Economy	129	196	146
Children and Youth Services	2,615	2,640	2,438
Citizenship and Immigration	63	52	53
Community and Social Services	6,035	6,005	5,858
Community Safety and Correctional Services	1,551	1,713	1,722
Consumer and Business Services	180	183	179
Culture	334	327	373
Economic Development and Trade	354	284	263
Education	9,732	9,680	9,008
Teachers' Pension (Note 5)	306	235	238
Energy	174	169	190
Environment	280	265	250
Executive Offices	20	24	20
Finance	2,199	1,911	1,722
Interest on Debt	9,963	9,604	9,694
Electricity Consumer Price Protection Fund	—	253	665
Power Purchases	869	797	786
Contingency Fund	200	—	—
Health and Long-Term Care	27,993	29,218	26,139
Intergovernmental Affairs	6	6	9
Labour	120	117	123
Management Board Secretariat	328	181	189
Contingency Fund	762	—	—
Public Service/OPSEU Retirement Benefits (Note 5)	218	309	102
Municipal Affairs and Housing	865	868	656
Ontario Native Affairs Secretariat	18	15	18
Natural Resources	542	627	526
Northern Development and Mines	424	408	464
Office of Francophone Affairs	4	3	3
Public Infrastructure Renewal	206	36	37
Tourism and Recreation	199	260	190
Training, Colleges and Universities	4,133	4,003	3,542
Transportation	1,429	1,597	1,392
Program Review and Evaluation ²	(500)	—	—
Year-End Savings ²	(300)	—	—
Total Expenses	73,136	73,883	68,774

¹ Fiscal plan for the year ended March 31, 2004 per 2003 Budget.

² For Budget purposes, these items were not allocated to individual ministries.

Province of Ontario

Schedule 4: Accounts Payable and Accrued Liabilities

As at March 31 (\$ Millions)	2004	2003
Interest on Debt	3,919	3,842
Transfer Payments	3,258	2,862
Salaries, Wages and Benefits	1,706	1,501
Liability for CRA ¹ Overpayment	1,330	1,330
Other	998	710
Restructuring	465	747
Obligations Under Capital Leases	65	69
Total Accounts Payable and Accrued Liabilities	11,741	11,061

¹ CRA – Canada Revenue Agency

Province of Ontario

Schedule 5: Accounts Receivable

As at March 31 (\$ Millions)	2004	2003
Taxes	3,423	3,032
Transfer Payments ¹	1,969	1,970
Other Accounts Receivable	998	678
Local Services Realignment	53	35
	6,443	5,715
Less: Provision for Doubtful Accounts ²	(2,451)	(2,330)
	3,992	3,385
Government of Canada	730	593
Total Accounts Receivable	4,722	3,978

¹ The transfer payment receivable consists primarily of recoverables of \$798 million (2003, \$783 million) for the Ontario Disability Support Program - Financial Assistance and \$1,110 million (2003, \$1,039 million) for the Student Support Programs.

² The provision for doubtful accounts includes a provision of \$732 million (2003, \$717 million) for the Ontario Disability Support Program — Financial Assistance and \$943 million (2003, \$883 million) for the Student Support Programs.

Province of Ontario**Schedule 6:****Government Business Enterprises and Other Government Organizations¹****Government Business Enterprises**

Algonquin Forestry Authority (AFA)
 Hydro One Inc. (HOI)
 Liquor Control Board of Ontario (LCBO)
 Niagara Parks Commission (NPC)
 Ontario Clean Water Agency (OCWA)
 Ontario Lottery and Gaming Corporation (OLGC)
 Ontario Northland Transportation Commission (ONTC)
 Ontario Power Generation Inc. (OPG)

Responsible Ministry

Natural Resources
 Energy
 Economic Development and Trade
 Tourism and Recreation
 Environment
 Economic Development and Trade
 Northern Development and Mines
 Energy

Other Government Organizations

Agricorp
 Cancer Care Ontario
 Education Quality and Accountability Office
 Independent Electricity Market Operator
 GO Transit (Toronto Area Transit Operating Authority and Greater Toronto Transit Authority)
 Legal Aid Ontario
 Metropolitan Toronto Convention Centre
 Northern Ontario Heritage Fund Corporation
 Ontario Educational Communications Authority
 Ontario Electricity Financial Corporation
 Ontario Energy Board²
 Ontario Financing Authority
 Ontario Housing Corporation
 Ontario Immigrant Investor Corporation²
 Ontario Municipal Economic Infrastructure Financing Authority^{2,3}
 Ontario Place Corporation
 Ontario Realty Corporation
 Ontario Science Centre
 Ontario Securities Commission
 Ontario Trillium Foundation
 Royal Ontario Museum
 Smart Systems for Health Agency

Agriculture and Food
 Health and Long-Term Care
 Education
 Energy
 Transportation
 Attorney General
 Tourism and Recreation
 Northern Development and Mines
 Training, Colleges and Universities
 Finance
 Energy
 Finance
 Municipal Affairs and Housing
 Economic Development and Trade
 Finance
 Tourism and Recreation
 Management Board Secretariat
 Culture
 Finance
 Culture
 Culture
 Health and Long-Term Care

¹ The most recent audited financial statements of these organizations are reproduced in Volume 2 of the Public Accounts of Ontario.

² The organization met the criteria for consolidation in fiscal year 2003–2004.

³ Ontario Municipal Economic Infrastructure Financing Authority was replaced by Ontario Strategic Infrastructure Financing Authority in fiscal year 2004–05.

Province of Ontario

Schedule 7: Investment in Government Business Enterprises

For the year ended (\$ Millions)	AFA March 31, 2004	HOI Dec. 31, 2003	LCBO March 31, 2004	NPC Oct. 31, 2004
Assets				
Cash and Temporary Investments	2	—	61	2
Accounts Receivable	5	636	28	3
Inventories	—	45	270	6
Prepaid Expenses	—	—	6	1
Long-term Investments	—	—	—	—
Fixed Assets	1	9,465	228	134
Other Assets	2	1,160	—	—
Total Assets	10	11,306	593	146
Liabilities				
Bank Indebtedness	—	37	—	13
Accounts Payable	1	692	304	6
Dividends Payable	—	—	—	—
Notes Payable	—	25	—	—
Deferred Revenue	—	—	—	—
Long-term Debt	—	5,011	—	—
Other Liabilities	1	1,250	35	3
Total Liabilities	2	7,015	339	22
Net Assets	8	4,291	254	124
Revenues				
Revenues from Operations	28	4,058	3,321	66
Transfers from the Government	—	—	—	—
Total Revenues	28	4,058	3,321	66
Total Expenses	28	3,662	2,275	75
Net Income (Loss)	—	396	1,046	(9)
Net Assets—Beginning of Year	8	4,139	248	133
Payments from (to) CRF	—	(244)	(1,040)	—
Net Assets	8	4,291	254	124

Province of Ontario

Schedule 7: Investment in Government Business Enterprises

OCWA Dec 31, 2003	OLGC March 31, 2004	ONTC Dec. 31, 2003	OPG Dec. 31, 2003	Adjustments ¹	Total
9	657	2	286	133	1,152
35	55	24	411	1	1,198
—	—	11	597	128	1,057
1	51	—	—	—	59
44	—	—	—	(7)	37
7	1,548	256	12,234	(51)	23,822
121	91	134	5,923	(103)	7,328
217	2,402	427	19,451	101	34,653
—	—	23	—	(31)	42
18	298	24	1,340	(217)	2,466
—	—	—	—	—	—
—	—	—	—	(25)	—
—	15	1	180	(2)	194
—	159	26	3,397	40	8,633
9	89	60	9,555	286	11,288
27	561	134	14,472	51	22,623
190	1,841	293	4,979	50	12,030
109	5,772	109	5,236	(73)	18,626
—	—	21	—	—	21
109	5,772	130	5,236	(73)	18,647
111	3,914	133	5,727	(348)	15,577
(2)	1,858	(3)	(491)	275	3,070
194	1,616	294	5,383	156	12,171
(2)	(1,633)	2	87	(381)	(3,211)
190	1,841	293	4,979	50	12,030

¹. Adjustments are primarily made for government enterprises with a year-end other than March 31. Included in these adjustments are increases (decreases) to net income of (\$14) million and \$92 million for HOI and OPG respectively. After these adjustments, the net income (loss) for the year ended March 31, 2004 of HOI and OPG (whose year-ends are December 31) amounted to \$382 million and (\$399) million respectively.

Schedule 7: Investment in Government Business Enterprises

Algonquin Forestry Authority (AFA)

The Algonquin Forestry Authority is responsible for forest management in Algonquin Park.

Hydro One Inc. (HOI)

The principal business of Hydro One is the transmission and distribution of electricity to customers within Ontario. It is regulated by the Ontario Energy Board.

Liquor Control Board of Ontario (LCBO)

The Liquor Control Board of Ontario regulates the purchase, sale and distribution of liquor for home consumption and liquor sales to licensed establishments through Liquor Control Board stores, Brewers' Retail stores and winery retail stores throughout Ontario. The Board buys wine and liquor products for resale to the public and tests all products sold to the public to maintain high standards of quality. The Board also establishes prices for beer, wine and spirits.

Niagara Parks Commission (NPC)

The Commission maintains, preserves and enhances the beauty and surroundings of the Horseshoe Falls and the Niagara River from Fort Erie to Niagara-on-the-Lake.

Ontario Clean Water Agency (OCWA)

The Agency assists municipalities in providing more cost-effective water and sewage services and encourages Ontario residents, municipalities and industries to conserve water. The Agency also finances, builds and operates water and sewage systems, as well as providing services to communities, all on a cost-recovery basis.

Ontario Lottery and Gaming Corporation (OLGC)

Under the Ontario Lottery and Gaming Corporation Act, 1999, the Corporation conducts lottery games and operates commercial casinos, charity casinos, and slot machines at 15 Ontario racetracks.

Ontario Northland Transportation Commission (ONTC)

The Commission provides rail, bus, ferry, air and telecommunications services to Northern Ontario.

Ontario Power Generation Inc. (OPG)

The principal business of Ontario Power Generation Inc. is the generation and sale of electricity in the Ontario wholesale market and in the interconnected markets of Quebec, Manitoba and the United States northeast and midwest.

Sources of Additional Information

The Ontario Budget

The Ontario government presents a Budget each year, usually in the early spring. This document outlines expected expense and revenue for the upcoming fiscal year

For an electronic copy of the Ontario Budget, visit the Ministry of Finance Web site at www.gov.on.ca/FIN/english/budeng.htm.

The Estimates of the Province of Ontario

The government's spending Estimates for the fiscal year commencing April 1 are presented to members of the Legislative Assembly following the presentation of the Ontario Budget by the Minister of Finance. The Estimates outline the spending plans of each ministry and are submitted for approval to the Legislative Assembly, per the *Supply Act*.

Ontario Finances

This is a quarterly report on the performance of the government's Budget for the fiscal year. It covers developments during a quarter and provides a revised outlook for the remainder of the year. Copies may be obtained free by writing to the Ministry of Finance, Communications and Corporate Affairs Branch, 3rd Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1. For electronic access, go to: www.gov.on.ca/FIN/english/engfinances.htm.

Ontario Economic Accounts

This quarterly report contains data on Ontario's economic activity. Copies may be obtained free by writing to the Ministry of Finance, Communications and Corporate Affairs Branch, 3rd Floor, Frost Building North, 95 Grosvenor Street, Toronto, Ontario, M7A 1Z1. For electronic access, go to: www.gov.on.ca/FIN/english/engaccts.htm.

