Ontario

BACKGROUNDER

Treasury Board Secretariat

Accounting Changes to Ontario's Financial Statements

September XX, 2017

Treasury Board Secretariat prepares the Public Accounts according to the accounting principles for governments issued by the Public Sector Accounting Board (PSAB). When preparing this year's Public Accounts, Ontario implemented accounting changes to further enhance accountability and transparency. To ensure consistency in year-to-year comparisons, financial statements from previous years have been restated, as needed, to reflect the following changes:

Accounting for net pension assets of jointly sponsored pension plans

In 2016-17, the Province is reporting the net pension assets for two of its jointly sponsored pension plans, the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). Until the 2015-16 Public Accounts, Ontario had recognized pension assets in its financial statements since 2001.

In preparing the 2015-16 Public Accounts, the Province's professional accounting staff and the Auditor General's Office engaged in discussions on the appropriate application of PSAB pension accounting standards for the Province's two jointly sponsored pension plans. The Pension Asset Expert Advisory Panel (PAEAP) was subsequently established to deliver independent advice and recommendations to the Province.

After careful study, the independent panel members released their report. It concluded that the Province's share of the net pension assets of both OTPP and OPSEUPP should be recognized in Ontario's financial statements.

After significant deliberation, including considering PAEAP's recommendations, Ontario confirmed that the accounting used for these pension plans prior to 2015-16 was appropriate, and are prepared in accordance with public sector accounting standards for pension asset accounting. Further, Ernst & Young LLP provided additional analysis and concluded that no valuation analysis was required for either plan. The 2016-17 financial statements include these net pension assets.

Commented [OE(1]: NOTE: This analysis is not publically available yet

Accounting for the Independent Electricity System Operator

For the 2016-17 reporting year, the Independent Electricity System Operator (IESO) began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects its net financial position on behalf of the IESO-administered markets at year-end.

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IESO has also adopted rate-regulated accounting. This decision was made because using rate-regulated accounting better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

The IESO highlighted these changes in their recent annual report. These changes are supported by the IESO's independent external auditor, which issued an unqualified audit opinion.

Accounting for hospitals, school boards and colleges

To increase transparency, the 2016-17 Public Accounts are presenting third-party revenues for hospitals, school boards and colleges with provincial revenue. Third-party revenues earned by these organizations, such as tuition fees, patient fees, research grants and donations, were netted against the respective sectors' expenses in prior years. This is simply a presentation change and it is fiscally neutral and does not impact the Province's annual deficit, net debt, or accumulated deficit. This change is consistent with public sector accounting standards and the reporting practices of other senior Canadian governments.

Accounting for energy sector government business enterprises

In the 2016-17 Public Accounts, the financial results of Ontario's investments in Hydro One and Ontario Power Generation are reported using international financial reporting standards. Previously, these results were reported using generally accepted accounting principles in the United States. This change was made to meet PSAB requirements. The change does not have a material impact on this year's financial statements.

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