Ministry of Finance

Office of the Provincial Controller Division

2015-16 Public Accounts

FPC Briefing

September 14, 2016

Confidential – For Internal Discussion Purposes

Highlights: Budget vs Interim vs. Preliminary Actual

2015-16 Preliminary Results								
$ Billions	**Budget**	**Interim**	**2015-16 Preliminary Results**	**2014-15 Actual**	**Change from Budget**	**%**	**Change from Interim**	**%**
Revenues	124.4	126.5	**128.4**	118.5	4.0	3.2%	1.8	1.5%
Expenses								
Programs	120.5	120.9	**120.9**	118.2	0.4	0.3%	-	0.0%
Interest on Debt	11.4	11.2	**11.0**	10.6	(0.4)	-3.9%	(0.2)	-2.1%
Total Expenses	131.9	132.1	**131.9**	128.8	-	0.0%	(0.2)	-0.1%
Reserve	1.0	0.2	**-**	-	(1.0)	100%	(0.2)	-100.0%
Deficit Before Outstanding Items	(8.5)	(5.7)	**(3.5)**	(10.3)	5.0	-58.8%	2.2	-38.6%
Deficit Range Communicated at FPC previously (August 17/16)			**(4.8) to (2.8)**					
Revised Potential Range of Deficit			**(4.9) to (3.5)**					

Notes:

(1) For discussion purposes only. These are preliminary numbers subject to change.

(2) Other potential items such as pension assets, GIF and Remedy are under discussion.

(3) Budget/Interim/preliminary actual numbers may not add due to rounding.

Outstanding Audit Matters

- **Pension Asset Ceiling Test**
  - Critical outstanding issue
  - The AG has advised that the $10.6B of pension assets reported on the Province's books for 2015-16 should be written off
  - Key elements of the AG's position include:
    - The Province does not have a legally enforceable right to unilaterally access the assets of the plan
    - No definitive plans on how the Province plans to benefit from the surplus
  - PSAB standards do not require either of the elements
  - The impact of a write-off would be significant to the Province's balance sheet, 2015-16 results and introduce significant volatility into future fiscal results
  - Impact of the AG's view on the financial statements is set out on the next slide
  - OPCD has obtained external accounting advice and a legal opinion supporting the Province's position regarding the interpretation of PSAB and access to the accrued pension asset
  - Meetings with AG on this issue ongoing
  - Actions underway:
    - External legal opinion
    - External accounting opinion (OPCD's accounting advisors)
    - Possible 2nd external accounting opinion (Federal AG/other)

2015-16 Public Accounts -- Fiscal Impact of AG's position on Pension Asset Ceiling

TBS

(in billions)	As currently reported	Adjustment	As adjusted
Statement of Operations			
Revenues	$ 128.4		$ 128.4
Expenses	131.9	1.4	133.3
Annual Deficit	(3.5)	(1.4)	(4.9)
Statement of Financial Position			
Financial assets	$ 83.5		$ 83.5
Liabilities	378.0	10.6	388.6
Net debt	(294.6)	(10.6)	(305.2)
Non-financial assets	102.5		102.5
Accumulated deficit	(192.1)	(10.6)	(202.7)
Gross Domestic Product (GDP)	747.1		747.1
Net Debt as a Percent of GDP	39.4%		40.9%

Potential Choices/Options on Pension Asset Ceiling

1. **AG changes her view to align with Province's view**
   - Issues summary from AG will provide additional insight into their views; to the extent we disagree with their views, we may be able to provide additional analysis to support the Province's view
   - If discussion between AG and the Province's external advisors (Deloitte) provides convincing arguments to help change the AG's interpretation of PSAB, this could be bolstered by a formal accounting opinion by Deloitte, which is being prepared

2. **AG does not change her view**
   a) Province agrees to write off asset in total
      - Impact on financial results for 2015-16 and beyond
      - Risks of accepting the AG's position described on following slides

   b) Province accepts a qualified audit opinion
      - Communication of reason for qualification
         - AG could suggest that the Province has been understating liabilities and making the results appear more favourable

Risks in Accepting the AG's Position on Pension Asset Ceiling

- By accepting AG's position, the Province cannot record a pension asset for OTPP or OPSEU, as the Province would need to record a valuation allowance up to the value of the net pension asset to bring the balance back to zero. This would impact future years financial results as well.

- OPCD does not believe the AG's position to be in accordance with PSAB
  - Implication on statement of responsibility
  - Implication to signing statement of representation

Other Outstanding Audit Matters

- **Accounting for Green Investment Fund expenses**
  - The Province evaluated the evidence for the GIFs based on a policy developed with the AG several years ago, as well as PSAB requirements, and determined that the criteria were met to record the expenses and related liabilities as of year-end
  - The AG disagrees that the Province met the requirements to record the expenses and corresponding liabilities as of March 31st for the GIF initiatives, primarily based on the view that the signing of the commitment letters before year end did not result in the Province losing its discretion to make the payments (e.g. the commitment letters issued prior to year-end were revocable).
  - The transfer agreements were signed and the funding flowed subsequent to year-end (by August 2016)
  - The AG has advised that she will likely qualify her opinion if the amounts are not reversed
  - Note that Slide 2 reflects reversal of $325M of expenses

- **Accounting for EDU Remedy Accrual**
  - AG has questioned whether the accrual has too much measurement uncertainty to be recorded
  - Recently, the AG had accepted the accrual, but has since linked the acceptance of this accrual to reversing the GIF expenses ($325M)
  - If the GIF expenses are not reversed, the combination of the GIF + Remedy accrual material to the financial statements and will definitely result in a qualification of the opinion by the AG
  - Discussions with the unions are scheduled to begin this week; TBS monitoring the results of the discussions to determine what initial expectations are put forth by the unions

Other Outstanding Audit Matters

- **Basis of Reporting for OPG and Hydro One**
  - The Province reports the results of OPG and Hydro One on a consistent basis with how the entities prepare their stand alone financial statements (US GAAP). This basis best supports transparency and accountability and reflects the government's interpretation of PSAB.
  - The AG views PSAB as requiring that the results for OPG and Hydro One be reported based on International Financial Reporting Standards which could materially impact the Province's financial results due to discount rates for obligations related to the decommission of nuclear assets.
  - For the current year, the Province and the AG have agreed to disclose the quantified differences in the notes to the financial statements.
  - The differences in the current year are not material for 2015-16, but would be material for 2016-17 in accordance with the AG's interpretation of PSAB requirements.
  - Despite unsuccessful efforts in outreach to PSAB earlier this year, TBS will consider re-engaging with PSAB to ensure that transparency and accountability can be served.

Timetable (subject to change)

- Financial Statement Discussion & Analysis finalized (September 14)
- Finalize Auditor General's Opinion (September 15)
- Management Letter of Representation (September 15)
- Complete production of Public Accounts: Annual Report, supplementary volumes, data visualization, white board video, communications products (various)
- Presentation of Public Accounts to Cabinet and Lieutenant Governor in Council (September 21st)
- Tabling (est. September 22nd)
- Last day to table (per FAA) September 27th

APPENDICES

2015-16 Preliminary Revenue

2015-16 Actual Results

$ Millions	Budget	Interim	2015-16 Actual	2014-15 Actual	Change from Budget	%	Change from Interim	%
Revenues								
Tax Revenue	87,397	90,766	**91,818**	82,275	4,421	5.1%	1,052	1.2%
Transfers from Government of Canada	22,890	22,873	**22,857**	21,615	(33)	-0.1%	(16)	-0.1%
Income from Government Business Enterprises	4,812	4,347	**4,909**	5,615	97	2.0%	562	12.9%
Other Revenue	9,291	8,561	**8,792**	9,041	(499)	-5.4%	231	2.7%
Total Revenue	124,390	126,547	**128,376**	118,546	3,986	3.2%	1,829	1.4%

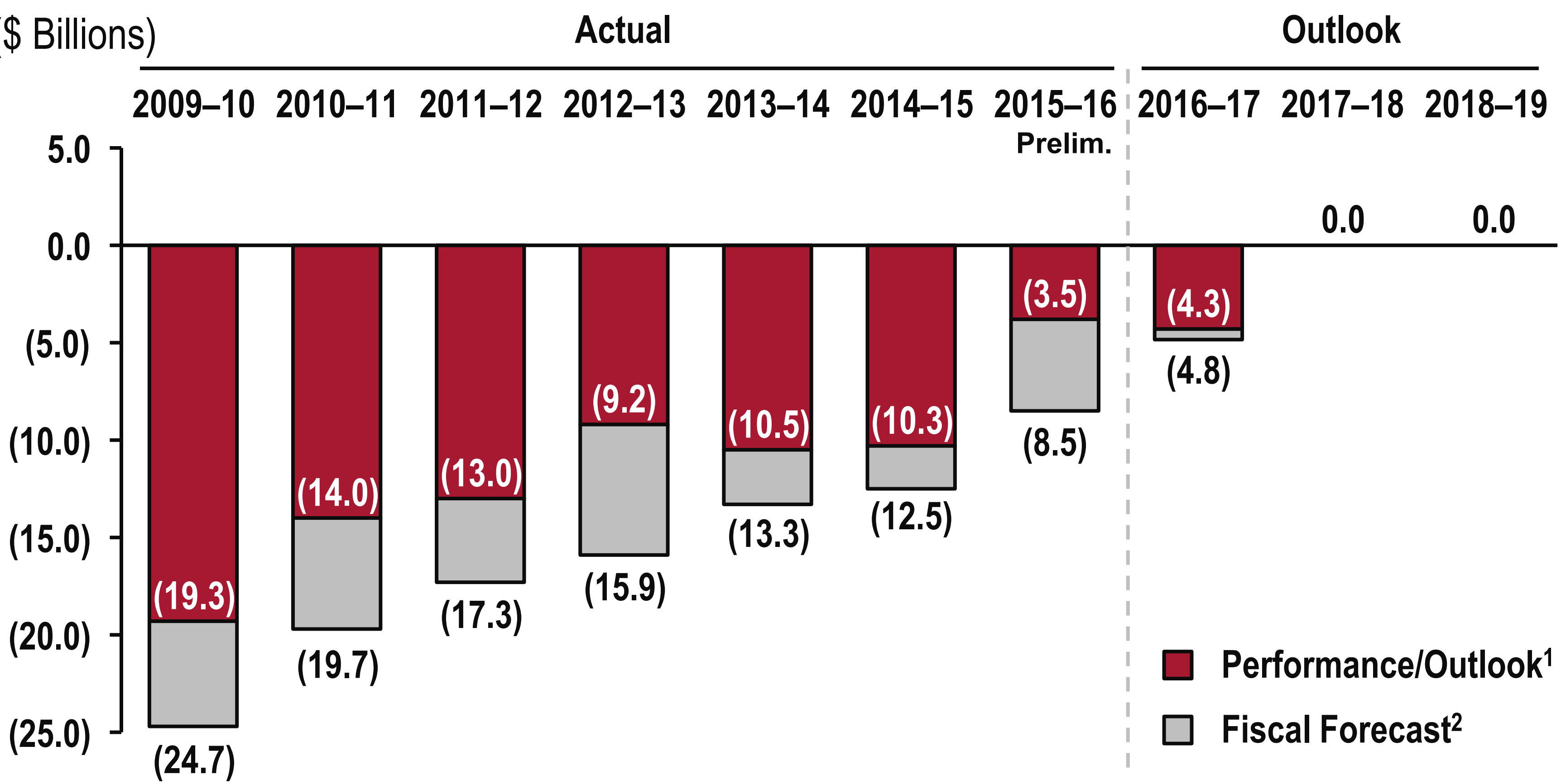
2015-16 Preliminary Expenses

2015-16 Preliminary Actual Results								
$ Millions	**Budget**	**Interim**	**2015-16 Actual (Prelim)**	**2014-15 Actual**	**Change from Budget**	**%**	**Change from Interim**	**%**
Expense								
Program Expense	120,492	120,883	**120,925**	118,226	433	0.4%	42	0.0%
Interest on Debt	11,410	11,200	**10,967**	10,635	(443)	-3.9%	(233)	-2.1%
Total Expenses	131,902	132,083	**131,892**	128,861	(10)	0.0%	(191)	-0.1%

Enhancements to Annual Report

- Revised Financial Statement Discussion and Analysis (FSD&A)
  - Addresses AG recommendations (2015 Annual Report -Chapter 2, pg. 41)
  - Expanded discussion of 5 year historical trends
  - Expanded discussion of balance sheet items, including enhanced disclosure on Tangible Capital Assets and Infrastructure Expenditures
- Supplemented by:
  - Data visualization providing additional details for assets, liabilities, revenues and expenses presented in the FSD&A
  - User-friendly access to data in supplementary volumes
  - Video explaining significance and value of Public Accounts reporting
- On agenda for Standing Committee on Public Accounts (October 5)

Fiscal Balance
($ Billions)



[1] Represents the *2016–17 First Quarter Finances* outlook for 2016–17, and the *2016 Budget* outlook for 2017–18 to 2018–19. For 2009–10 to 2015–16, actual results are presented.

[2] Forecast for 2009–10 is based on the *2009 Ontario Economic Outlook and Fiscal Review*, 2010–11 to 2013–14 is based on the *2010 Budget*; 2014–15 is based on the *2014 Budget*; and 2015–16 to 2016–17 is based on the *2015 Budget*.

Source: Ontario Ministry of Finance.