

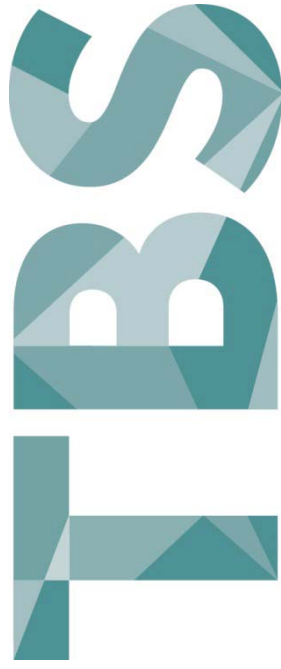
1 - Email - November 18 2016 - FINAL OTPP Pension Accounting Deck - November 17 2016v2.pptx.pdf

From: [Petsche, Nadine \(TBS\)](#)
To: [Tam, Nelson \(TBS\)](#)
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Subject: FINAL OTPP Pension Accounting Deck - November 17 2016v2.pptx
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Nelson,

We've made some (important) edits to appendix 4 of the deck. Can you please share this version with the Panel members and advise that it supercedes the original deck. Thanks. Nadine

FINAL OTPP Pension Accounting Deck - November.pdf



Office of the Provincial Controller Division

Briefing:
***Accounting by the Province of
Ontario for the Ontario Teachers’
Pension Plan***

For Discussion Purposes Only

Overview



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Issue



- The Province had accounted for the Ontario Teachers' Pension Plan (OTPP), on a consistent basis for the prior 14 years since adopting the pension accounting standard (RETIREMENT BENEFITS, Section PS 3250) in 2001/02.
- In relation to the 2015-16 Public Accounts for the Province of Ontario, the Auditor General of Ontario (AG) challenged the Province's previous accounting for OTPP and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The AG disagrees that the surplus in OTPP is a reportable asset to the Province on the basis that:
 - there is no legally enforceable unilateral right to the asset, and in the absence of that,
 - no agreement was in place at March 31, 2016 with the Ontario Teachers' Federation (OTF) to reduce future contributions
- The following analysis is specific to OTPP; OTPP's constating documents differ from those of other pension plans in Ontario and in other provinces.

Reporting in the 2015-16 Public Accounts



- The Province disagrees with the Auditor General's interpretation of Public Sector Accounting Board (PSAB) standards.
- The Province believes its share of OTPP's accounting surplus should be recognized as an asset. The Province expects to benefit from the reported pension assets through reduced contributions and has performed the required pension asset ceiling test to confirm that the Province's estimated asset value is not impaired.
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- OTPP meets the definition of a jointly sponsored pension plan (JSPP) as defined in the Pension Benefits Act. Sponsors are the Province of Ontario and the OTF.
- The sponsors are jointly responsible for decision making, share in contributions, and collectively address any plan funding surplus/deficit (at least every 3 years). The sponsors work within the framework of the Funding Management Policy (changes to this Policy would require consent of both sponsors). The sponsors can be said to have equal opportunity to benefit from surplus utilization through the negotiation process.
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Prior accounting for OTPP by the Province



- Since 2001-2002, the Province has recorded its portion (50%) of the pension asset of OTPP in accordance with Section PS 3250.
- With regards to expected future benefit of the surplus, the Province would not expect to withdraw any surplus, but benefit through reduced future contributions.
- The Province and OTF have a history of equally sharing the benefits of surplus utilization as demonstrated from the time OTPP became a JSPP to the date the Funding Management Policy in 2003 was established (included in Appendix 1). Since 2003, OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the temporary improvement or permanent improvement zone. See Appendix 3.

- OTPP's financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook ("Part IV"), which is a different accounting framework than the Province uses for its financial reporting (PSAB standards) and is also a different framework than is used to calculate the net surplus or deficit for funding purposes. Different assumptions are used, for example relating to the discount rate (See Appendix 4).

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For accounting purposes, what type of pension plan is OTPP and how should it be classified under Public Sector Accounting Standards (PSAS)?

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- Section PS 3250 paragraph .001 states "This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements".
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- The Teachers' Pension Act, the Partners' Agreement and the plan text collectively set out the terms surrounding the sharing of control of OTPP between the Province and OTF. The Province of Ontario has an equitable share of the risks and rewards (surpluses and deficits) of OTPP, thus meeting the definition of a Joint Defined Benefit Plan (JDBP) in PSAS.

A joint defined benefit plan is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:

- (a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;
- (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;
- (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and
- (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan (glossary to Section PS 3250).

Conclusion on classification



- The Province has concluded that OTPP meets the definition of a joint defined benefit plan as the Province and Ontario Teachers' Federation are shared sponsors of the plan.
- The Teachers' Pension Act, the Partners' Agreement and the plan text for OTPP collectively set out this shared control and equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a joint defined benefit plan in RETIREMENT BENEFITS, Section PS 3250 in PSAS which is a primary source of GAAP.

Question 2 – Recognition of a pension asset for a JDBP

As a result of its classification as a joint defined benefit plan, how should the Province of Ontario account for the pension surplus of OTPP in the Public Accounts?

Concept of shared control and asset recognition



- Section PS 3250 requires the government to account for its portion (as there is shared control) of a JDBP following the accounting requirements for a defined benefit plan within Section PS 3250 (paragraph .081); no distinction is made as to whether the plan is in a surplus or deficit position. In a JDBP the risks and rewards of a plan are equitably shared, so the Province's portion of the plan includes its share of any asset as well as its share of any liability.
- The Financial Statement Concepts definition of an asset references “control” over an economic resource in Section PS 1000 and does not address “shared control”, which is relevant to the situation of a joint defined benefit plan, in respect of asset recognition. However, the term is included in other PSAB standards, for example relating to government partnerships (Section PS 3060 requires proportionate consolidation which is the recognition of a pro rata share of assets, liabilities, revenues and expenses of the partnership). Section PS 3060 existed prior to the introduction of Section PS 3250 into the PSAB standards, indicating that an asset subject to shared control with another party can be recognized in the financial statements.

Concept of Contingent Asset



- Section PS 3320, provides guidance on the disclosure of contingent assets in a government's financial statements. It characterizes a contingent asset as one where there is uncertainty as to the existence of an asset.
- It is the Province's position that the existence of the pension asset is not uncertain – there is an accrued benefit asset calculated in accordance with Section PS 3250 as noted above that is based on past transactions, representing the impact of cumulative contributions and benefit expense.
- The Province does however, acknowledge that uncertainty does exist with regards to measurement of the accrued benefit asset and potential impairment thereof.

Conclusion on recognition



- Section PS 3250 requires recognition by the Province of 50% of the plan assets of OTPP.
- Unilateral control is not necessary for asset recognition (as also seen with government partnerships); shared control is appropriate for a JDBP.
- Uncertainty relating to OTPP's pension surplus relates to measurement.

Question 3 – Measurement of a pension asset

How should the pension asset of OTPP be measured for purposes of reporting in the Public Accounts of the Province of Ontario?

- Section PS 3250 address how to measure a pension asset
- This is a two-step process (refer to Appendix 7)
- Step One: the accrued plan obligation (a Credit) and the plan assets (a Debit) are measured in accordance with the standard, and adjusted for any unamortized actuarial gains or losses (a Debit for gains not yet realized, a Credit for losses not yet realized). This measurement results in a retirement benefit liability when it is a net liability (a Credit) amount or an accrued benefit asset (AcBA) when it is a net asset (a Debit) amount

Guidance in Section PS 3250 on measurement (continued)



- Step Two: when the resulting amount is an asset, the standard requires a second step to test for asset impairment. The amount that is tested is the “adjusted benefit asset”. When there are net unamortized gains the AcBA is equal to the adjusted benefit asset (AdBA). When there are net unamortized losses the AcBA is reduced by those net unamortized losses to calculate the adjusted benefit asset (AdBA).
- The AcBA is then compared to the expected future benefit (referred to as the asset ceiling test). The objective is to limit a government's accrued benefit asset to the amount it can realize in the future. A government may benefit from an AcBA by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions (Section PS 3250 paragraph .056).

- The Province expects future benefits from OTPP's plan surplus to be realized through reduced future contributions, not withdrawals. There is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years as a minimum. A failure to agree might lead to mediation and/or arbitration, but not an assumption of the 'status quo'.
- Expectations of benefitting from the surplus are based on:
 1. The Teachers' Pension Act requires equal contributions from the Province and from plan members of OTPP;
 2. The history of surplus utilization for OTPP demonstrates sharing of the financial benefit between sponsors;
 3. No sponsor of OTPP can unilaterally utilize the plan's surplus; and
 4. If the sponsors of OTPP cannot agree on how to utilize the pension surplus, the matter can be submitted to mediation and then arbitration.
- The Province considers that the uncertainties around how and when to utilize the surplus do not result in an inability or lack of entitlement to utilize the surplus over the life of the plan.

Calculating the limit on the carrying amount of an accrued benefit asset (asset ceiling test)



- Calculation of the asset ceiling test involves professional judgement.
- Under Section PS 3250 the expected future benefit to be recorded by the government is the sum of:
 - a. The present value of the government's expected future accrual for service for the current number of active employees less the present value of minimum contributions the government is required to make regardless of any surplus; plus
 - b. The amount of the plan surplus that can be withdrawn in accordance with the existing plan and any laws and regulations.
- The following slides consider this calculation relative to the Province's 50% share of OTPP.

Considerations re: surplus withdrawal (Part b of the asset ceiling test)



- The Province does not expect to realize its expected future benefit through withdrawal of any plan surplus.
- Section PS 3250 specifies that an amount for withdrawal of surplus is only included when a government has a legally enforceable right of withdrawal.
- In accordance with the Funding Management Policy for OTPP, the parties must negotiate in order for a withdrawal of the surplus to happen.
- As at March 31, 2016 the Province did not have a signed agreement with OTF regarding withdrawal of the surplus.

Considerations re: reduced future contributions (Part a of the asset ceiling test)



- While Section PS 3250 states that legal enforceability is required to report an expected benefit for a withdrawal of the plan surplus, it does not include a similar requirement in respect of the ability to benefit through future contribution reductions.
- The Province expects to benefit fully from the asset by exercising their current rights under the plan arrangements to negotiate the use of surpluses in the form of contribution holidays/reductions. There is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. The surplus “zone” for OTPP impacts how the pension surplus may be utilized by the Province and is summarized in Appendix 3.
- The present value of its expected future accrual for service is typically calculated based on the Province's share (50% for OTPP) of the current service cost reported in the most recent actuarial valuation, taken into perpetuity.

Considerations re: reducing future contributions (Part a of the asset ceiling test)(continued)

- There is very limited guidance in PSAB standards on determining the present value of minimum contributions the government is required to make regardless of any surplus; professional judgement is required. The Province engaged consultants to calculate this value for OTPP considering different assumptions on future minimum contributions. The key scenarios considered and results are summarized in Appendix 5.
- For purposes of OTPP in the 2015-16 Public Accounts, 11 years was used by the Province reflecting the number of future years for which special contributions are to be made.
- Based on the Province's best estimate calculation of the expected future benefit and the results of the actuarial valuations performed as part of the pension asset ceiling test, no valuation allowance was deemed necessary in relation to the pension asset of OTPP at March 31, 2016.

Other guidance in PSAS on measurement



- Section PS 2130 provides guidance on dealing with measurement uncertainty.
- Measurement uncertainty in pension plan accounting exists for example in the estimation of the valuation allowance and in the determination of the discount rate (both in terms of selection of the rate to be used under PSAS and in management's best estimate of the long-term rate of return on plan assets).
- Historical rates of return on plan assets have supported the past discount rates used by the Province in relation to OTPP (see Appendix 4).
- The choice of rate used by the Province (long-term rate of return on plan assets) is consistent with the rate used by other Provinces in Canada for their pension plans (see Appendix 6).
- PSAS guidance acknowledges that the objective of funding and accounting are different (Section PS 3250 paragraphs .008 to .010). Because of the different objectives, the discount rates used will also be different.

Accounting for JDBP by other Provinces



- Provinces such as British Columbia, New Brunswick, Manitoba and Nova Scotia do not report assets for their provincial sponsored pension plans or alternatively provide a valuation allowance to reduce the value of a pension asset balance to nil.
- The different accounting treatment in the Province of Ontario (for OTPP) reflects the difference circumstances in these other provinces with regards to expected future benefits related to pension surpluses.

Conclusion on measurement



- The Province's position is that the attributes of the JDBP arrangements for OTPP entitle the Province to access its portion of the plan surplus through the right to negotiate its use of the Province's benefit through future reduced contributions.
- Significant professional judgement and estimation is involved in determining the valuation allowance under Section PS 3250; the Province has applied reasonable estimates and assumptions.
- Based on the results of modelling performed in relation to the asset ceiling test, the Province concluded that no valuation allowance was necessary.
- Refer to Appendix 2 for a comparison of the pension expense, surplus (deficit), net debt and net debt-to-GDP of the Province over the prior 10 years following the Auditor General's approach to pension accounting for OTPP compared with following the Province's interpretation of the PSAS.

APPENDICES

Appendix 1: History of Surplus Utilization for OTPP

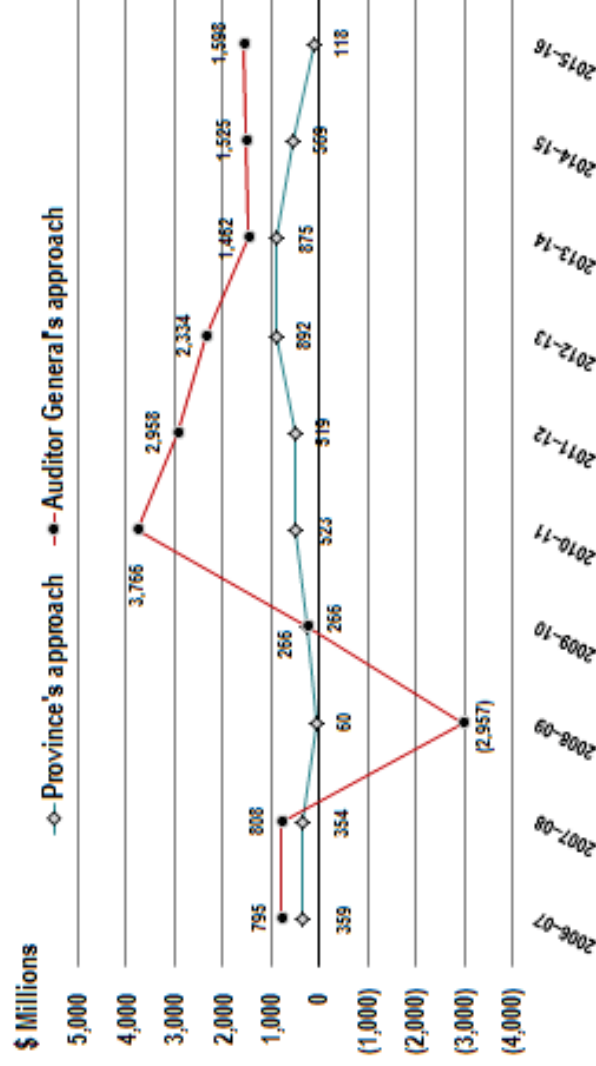


Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1993	\$1.5 billion	\$325 million to offset social contract days	Eliminated special payments for \$1.2 billion saving	\$0
1996	\$0.7 billion	\$0.6 billion for benefit improvements and RCA contributions	N/A	\$0.1 billion
1998	\$6.8 billion	\$2.2 billion for benefit improvements	\$4.6 billion to reduce the value of remaining special payments	\$0
1999	\$3.5 billion	N/A	\$3.5 billion to reduce the value of remaining special payments	\$0
2001	\$6.8 billion	\$6.2 billion for benefit improvements	N/A	\$0.6 billion
2002	\$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		\$1.9 billion
Total		\$9.3 Billion	\$9.3 Billion	

Appendix 2: Comparison of key measurements of the Province over the prior 10 years



OTPP expense comparison — 10-year Chart 1



Appendix 3: Surplus Zones



The Plan Documentation (specifically the FMP) and applicable legislation allow for the sponsors to utilize surplus in a variety of ways, depending on the funded status of the OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

- a. In the Restoration Zone, a Restoration Contribution Reduction may be approved once certain other requisite conditions have been met.
- b. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (i.e., a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).
- c. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

Appendix 4: OTPP funding vs. accounting discount rates and actual performance



Ontario Teacher's Pension Plan				
Rate Comparison				
	OTPP Annual Performance	OTPP Filed Discount Rate for Funding Valuation *	Province Economic Assumption for Nominal Return	OTPP Discount Rate for Stand-alone Financial Statements
2005	17.2%	6.48%	7.00%	4.60%
2006	13.2%		7.00%	4.70%
2007	4.5%		6.75%	4.65%
2008	-18.0%	5.65%	6.75%	4.00%
2009	13.0%	5.00%	6.75%	4.60%
2010	14.3%		6.75%	4.05%
2011	11.2%	5.40%	6.75%	3.40%
2012	13.0%	5.30%	6.75%	3.40%
2013	10.9%		6.75%	4.20%
2014	11.8%	4.95%	6.75%	3.35%
2015	13.0%	4.85%	6.50%	3.25%
2016	n/a	n/a	6.25%	n/a

"OTPP filed discount rate" relates to that used in OTPP's financial statements prepared using Part IV and that the "Province Economic Assumption for Nominal Return" relates to that used in the Province's financial statements prepared using PSAB in relation to the OTPP plan.

10/23/2018

Appendix 5: Summary of Ceiling Test Results (Various Scenarios)



Model Assumptions	Expected Future Benefit (\$ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation that is required even if a surplus is present.	\$44.6	The expected future benefit (EFB) as at March 31, 2016 exceeds the Adjusted benefit asset. There is no valuation allowance created and no reduction in the balance sheet asset position.
2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period covered by the current funding report. Contribution requirements are therefore \$1.7B per year for 2015, 2016 and 2017.	\$41.8	The minimum contribution requirement applies to the period covered by the funding report until a new report is completed. We do not know the minimum funding requirement after that date. EFB is reduced as of March 31, 2016 by the present value of the minimum contributions of \$1.3B in 2016 (9 months left) and \$1.7B in 2017. Still EFB exceeds the Adjusted benefit asset.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of expected special contribution requirement (i.e. 11 years through 2026).	\$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. When special contribution is present, the basic contribution cannot be reduced either. Once special contribution ends (2026) expected situation is surplus using the Province accounting best estimate assumption for asset return. The EFB at March 31, 2016 is reduced by \$15.3B. Still EFB exceeds the Adjusted benefit asset.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus above the threshold is used at 50 % for employees in benefit improvement and 50 % for the Province to reduce contributions in the following years.	\$23.2	The ITA surplus limit is reached at the end of 2024, leading to forced contribution reductions from 2025. The EFB is reduced by \$21.4B at March 31, 2016. Still EFB exceeds the Adjusted benefit asset.
5. Every year, 50 % of current year surplus is applied to improve member benefits and the remaining 50 % of the current year surplus is retained and continues to accrue unused. Once the unused portion attains the ITA threshold, the excess surplus is used 50 % - 50 % to reduce contributions by employees and the Province.	\$14.2	The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. The EFB is reduced by \$30.4B at March 31, 2016. Still EFB exceeds the Adjusted benefit asset.

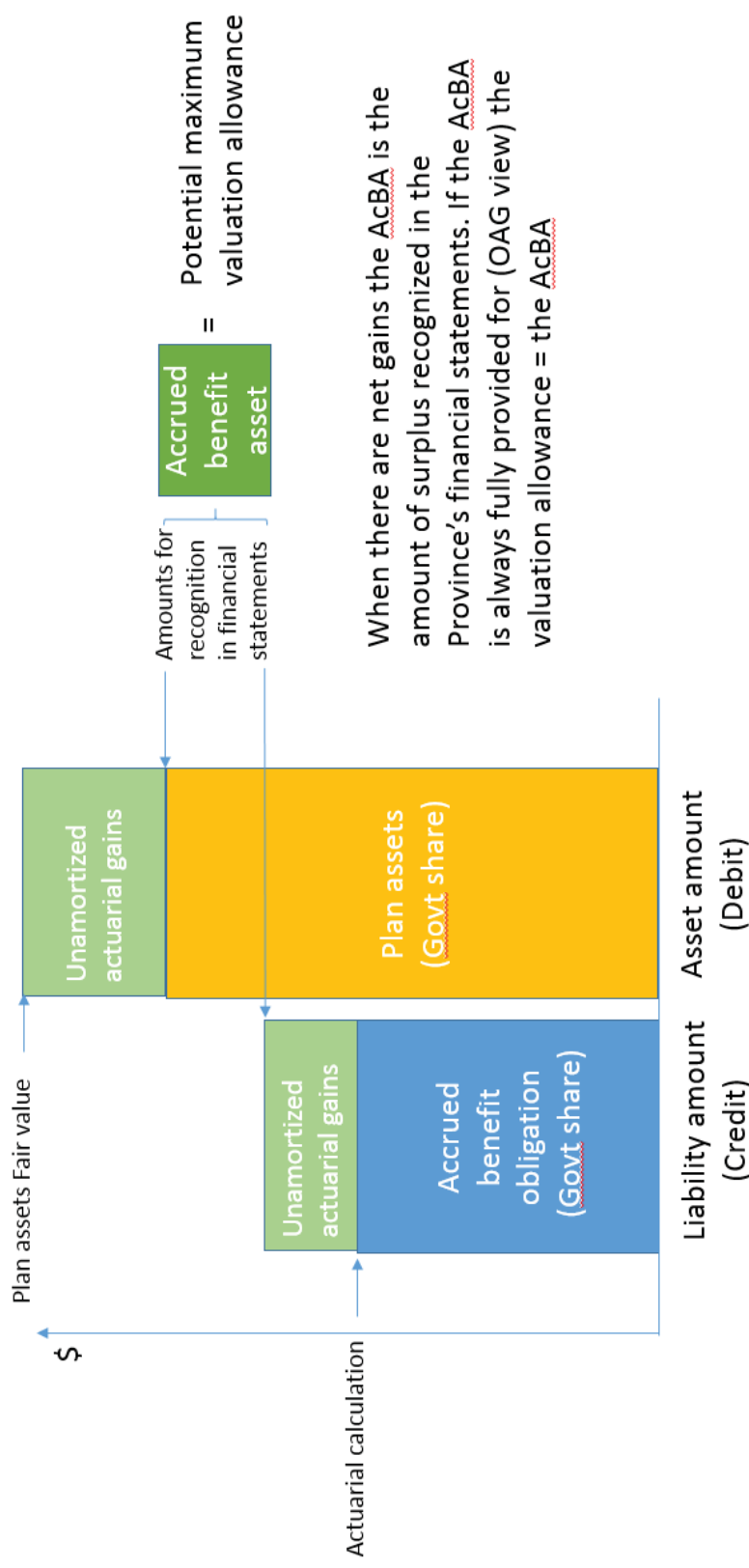
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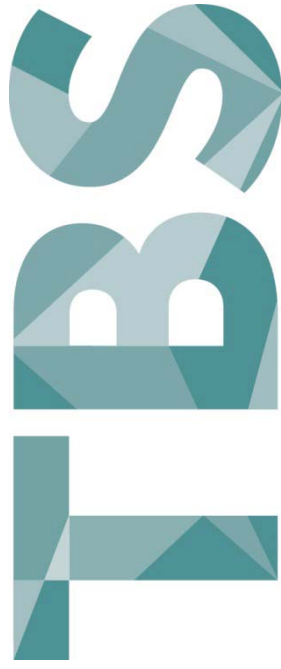
Government		Plan - Funding		Plan F/S	
Ontario – LT ROR	6.25	OTPP	4.85 %	OTPP – MR of Prov. Bonds	3.25
Alberta – LT ROR	6.5	AB – Post 1992 PP	6	AB TPP – LT ROR	7.0
Saskatchewan – LT ROR	6.5	SK – SHEPP	NA	SK – LT ROR	6.5
BC – LT ROR	6.5	BC – PSPP	6.5	BC – LT ROR	6.5
Quebec LT ROR	6.5	QC - CARRA	5.8	QC – LT ROR	6.4
NFLD – LT ROR	6.3	NFLD – MUPP	5.8	NFLD – LT ROR	5.8
NS – LT ROR	7.75	NS - NSTPP	6.25	NS – LT ROR	6.25
MB – LT ROR	6.25	MB - MTPP	6	MB – LT ROR	6

Appendix 7: Measurement of a pension asset ¹

An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains. Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



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- (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;
- (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and
- (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan (glossary to Section PS 3250).

Conclusion on classification



- The Province has concluded that OTPP meets the definition of a joint defined benefit plan as the Province and Ontario Teachers' Federation are shared sponsors of the plan.
- The Teachers' Pension Act, the Partners' Agreement and the plan text for OTPP collectively set out this shared control and equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a joint defined benefit plan in RETIREMENT BENEFITS, Section PS 3250 in PSAS which is a primary source of GAAP.

Question 2 – Recognition of a pension asset for a JDBP

As a result of its classification as a joint defined benefit plan, how should the Province of Ontario account for the pension surplus of OTPP in the Public Accounts?

Concept of shared control and asset recognition



- Section PS 3250 requires the government to account for its portion (as there is shared control) of a JDBP following the accounting requirements for a defined benefit plan within Section PS 3250 (paragraph .081); no distinction is made as to whether the plan is in a surplus or deficit position. In a JDBP the risks and rewards of a plan are equitably shared, so the Province's portion of the plan includes its share of any asset as well as its share of any liability.
- The Financial Statement Concepts definition of an asset references “control” over an economic resource in Section PS 1000 and does not address “shared control”, which is relevant to the situation of a joint defined benefit plan, in respect of asset recognition. However, the term is included in other PSAB standards, for example relating to government partnerships (Section PS 3060 requires proportionate consolidation which is the recognition of a pro rata share of assets, liabilities, revenues and expenses of the partnership). Section PS 3060 existed prior to the introduction of Section PS 3250 into the PSAB standards, indicating that an asset subject to shared control with another party can be recognized in the financial statements.

Concept of Contingent Asset



- Section PS 3320, provides guidance on the disclosure of contingent assets in a government's financial statements. It characterizes a contingent asset as one where there is uncertainty as to the existence of an asset.
- It is the Province's position that the existence of the pension asset is not uncertain – there is an accrued benefit asset calculated in accordance with Section PS 3250 as noted above that is based on past transactions, representing the impact of cumulative contributions and benefit expense.
- The Province does however, acknowledge that uncertainty does exist with regards to measurement of the accrued benefit asset and potential impairment thereof.

Conclusion on recognition



- Section PS 3250 requires recognition by the Province of 50% of the plan assets of OTPP.
- Unilateral control is not necessary for asset recognition (as also seen with government partnerships); shared control is appropriate for a JDBP.
- Uncertainty relating to OTPP's pension surplus relates to measurement.

Question 3 – Measurement of a pension asset

How should the pension asset of OTPP be measured for purposes of reporting in the Public Accounts of the Province of Ontario?

- Section PS 3250 address how to measure a pension asset
- This is a two-step process (refer to Appendix 7)
- Step One: the accrued plan obligation (a Credit) and the plan assets (a Debit) are measured in accordance with the standard, and adjusted for any unamortized actuarial gains or losses (a Debit for gains not yet realized, a Credit for losses not yet realized). This measurement results in a retirement benefit liability when it is a net liability (a Credit) amount or an accrued benefit asset (AcBA) when it is a net asset (a Debit) amount

Guidance in Section PS 3250 on measurement (continued)



- Step Two: when the resulting amount is an asset, the standard requires a second step to test for asset impairment. The amount that is tested is the “adjusted benefit asset”. When there are net unamortized gains the AcBA is equal to the adjusted benefit asset (AdBA). When there are net unamortized losses the AcBA is reduced by those net unamortized losses to calculate the adjusted benefit asset (AdBA).
- The AcBA is then compared to the expected future benefit (referred to as the asset ceiling test). The objective is to limit a government's accrued benefit asset to the amount it can realize in the future. A government may benefit from an AcBA by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions (Section PS 3250 paragraph .056).

- The Province expects future benefits from OTPP's plan surplus to be realized through reduced future contributions, not withdrawals. There is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years as a minimum. A failure to agree might lead to mediation and/or arbitration, but not an assumption of the 'status quo'.
- Expectations of benefitting from the surplus are based on:
 1. The Teachers' Pension Act requires equal contributions from the Province and from plan members of OTPP;
 2. The history of surplus utilization for OTPP demonstrates sharing of the financial benefit between sponsors;
 3. No sponsor of OTPP can unilaterally utilize the plan's surplus; and
 4. If the sponsors of OTPP cannot agree on how to utilize the pension surplus, the matter can be submitted to mediation and then arbitration.
- The Province considers that the uncertainties around how and when to utilize the surplus do not result in an inability or lack of entitlement to utilize the surplus over the life of the plan.

Calculating the limit on the carrying amount of an accrued benefit asset (asset ceiling test)



- Calculation of the asset ceiling test involves professional judgement.
- Under Section PS 3250 the expected future benefit to be recorded by the government is the sum of:
 - a. The present value of the government's expected future accrual for service for the current number of active employees less the present value of minimum contributions the government is required to make regardless of any surplus; plus
 - b. The amount of the plan surplus that can be withdrawn in accordance with the existing plan and any laws and regulations.
- The following slides consider this calculation relative to the Province's 50% share of OTPP.

Considerations re: surplus withdrawal (Part b of the asset ceiling test)



- The Province does not expect to realize its expected future benefit through withdrawal of any plan surplus.
- Section PS 3250 specifies that an amount for withdrawal of surplus is only included when a government has a legally enforceable right of withdrawal.
- In accordance with the Funding Management Policy for OTPP, the parties must negotiate in order for a withdrawal of the surplus to happen.
- As at March 31, 2016 the Province did not have a signed agreement with OTF regarding withdrawal of the surplus.

Considerations re: reduced future contributions (Part a of the asset ceiling test)



- While Section PS 3250 states that legal enforceability is required to report an expected benefit for a withdrawal of the plan surplus, it does not include a similar requirement in respect of the ability to benefit through future contribution reductions.
- The Province expects to benefit fully from the asset by exercising their current rights under the plan arrangements to negotiate the use of surpluses in the form of contribution holidays/reductions. There is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. The surplus “zone” for OTPP impacts how the pension surplus may be utilized by the Province and is summarized in Appendix 3.
- The present value of its expected future accrual for service is typically calculated based on the Province's share (50% for OTPP) of the current service cost reported in the most recent actuarial valuation, taken into perpetuity.

Considerations re: reducing future contributions (Part a of the asset ceiling test)(continued)

- There is very limited guidance in PSAB standards on determining the present value of minimum contributions the government is required to make regardless of any surplus; professional judgement is required. The Province engaged consultants to calculate this value for OTPP considering different assumptions on future minimum contributions. The key scenarios considered and results are summarized in Appendix 5.
- For purposes of OTPP in the 2015-16 Public Accounts, 11 years was used by the Province reflecting the number of future years for which special contributions are to be made.
- Based on the Province's best estimate calculation of the expected future benefit and the results of the actuarial valuations performed as part of the pension asset ceiling test, no valuation allowance was deemed necessary in relation to the pension asset of OTPP at March 31, 2016.

Other guidance in PSAS on measurement



- Section PS 2130 provides guidance on dealing with measurement uncertainty.
- Measurement uncertainty in pension plan accounting exists for example in the estimation of the valuation allowance and in the determination of the discount rate (both in terms of selection of the rate to be used under PSAS and in management's best estimate of the long-term rate of return on plan assets).
- Historical rates of return on plan assets have supported the past discount rates used by the Province in relation to OTPP (see Appendix 4).
- The choice of rate used by the Province (long-term rate of return on plan assets) is consistent with the rate used by other Provinces in Canada for their pension plans (see Appendix 6).
- PSAS guidance acknowledges that the objective of funding and accounting are different (Section PS 3250 paragraphs .008 to .010). Because of the different objectives, the discount rates used will also be different.

Accounting for JDBP by other Provinces



- Provinces such as British Columbia, New Brunswick, Manitoba and Nova Scotia do not report assets for their provincial sponsored pension plans or alternatively provide a valuation allowance to reduce the value of a pension asset balance to nil.
- The different accounting treatment in the Province of Ontario (for OTPP) reflects the difference circumstances in these other provinces with regards to expected future benefits related to pension surpluses.

Conclusion on measurement



- The Province's position is that the attributes of the JDBP arrangements for OTPP entitle the Province to access its portion of the plan surplus through the right to negotiate its use of the Province's benefit through future reduced contributions.
- Significant professional judgement and estimation is involved in determining the valuation allowance under Section PS 3250; the Province has applied reasonable estimates and assumptions.
- Based on the results of modelling performed in relation to the asset ceiling test, the Province concluded that no valuation allowance was necessary.
- Refer to Appendix 2 for a comparison of the pension expense, surplus (deficit), net debt and net debt-to-GDP of the Province over the prior 10 years following the Auditor General's approach to pension accounting for OTPP compared with following the Province's interpretation of the PSAS.

APPENDICES

Appendix 1: History of Surplus Utilization for OTPP

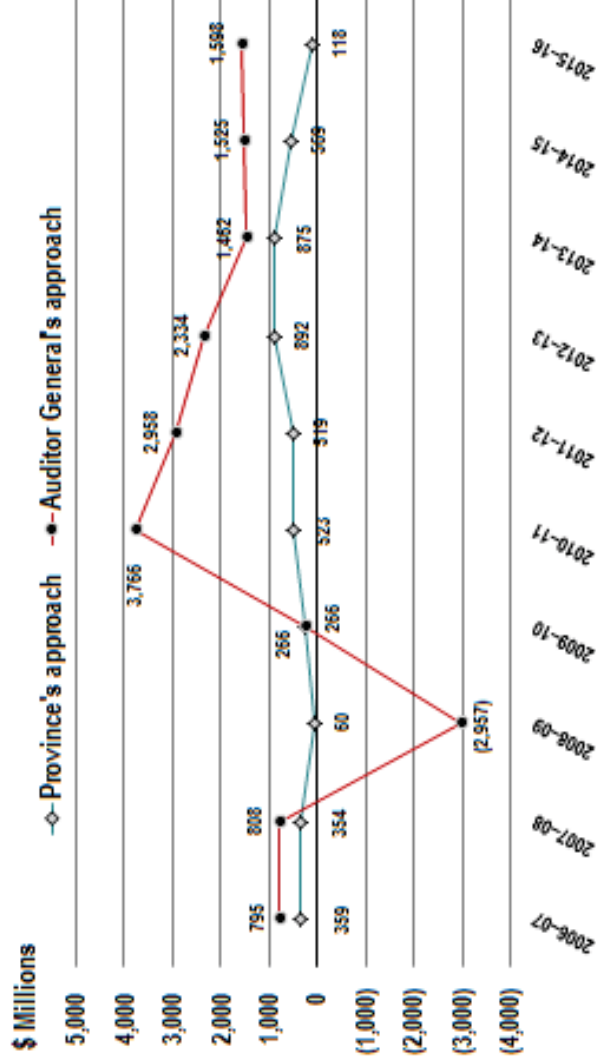


Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1993	\$1.5 billion	\$325 million to offset social contract days	Eliminated special payments for \$1.2 billion saving	\$0
1996	\$0.7 billion	\$0.6 billion for benefit improvements and RCA contributions	N/A	\$0.1 billion
1998	\$6.8 billion	\$2.2 billion for benefit improvements	\$4.6 billion to reduce the value of remaining special payments	\$0
1999	\$3.5 billion	N/A	\$3.5 billion to reduce the value of remaining special payments	\$0
2001	\$6.8 billion	\$6.2 billion for benefit improvements	N/A	\$0.6 billion
2002	\$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		\$1.9 billion
Total		\$9.3 Billion	\$9.3 Billion	

Appendix 2: Comparison of key measurements of the Province over the prior 10 years



OTPP expense comparison — 10-year Chart 1



Appendix 3: Surplus Zones



The Plan Documentation (specifically the FMP) and applicable legislation allow for the sponsors to utilize surplus in a variety of ways, depending on the funded status of the OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

- a. In the Restoration Zone, a Restoration Contribution Reduction may be approved once certain other requisite conditions have been met.
- b. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (i.e., a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).
- c. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

Appendix 4: OTPP funding vs. accounting discount rates and actual performance



Ontario Teacher's Pension Plan				
Rate Comparison				
	OTPP Annual Performance	OTPP Filed Discount Rate for Funding Valuation *	Province Economic Assumption for Nominal Return	OTPP Discount Rate for Stand-alone Financial Statements
2005	17.2%	6.48%	7.00%	4.60%
2006	13.2%		7.00%	4.70%
2007	4.5%		6.75%	4.65%
2008	-18.0%	5.65%	6.75%	4.00%
2009	13.0%	5.00%	6.75%	4.60%
2010	14.3%		6.75%	4.05%
2011	11.2%	5.40%	6.75%	3.40%
2012	13.0%	5.30%	6.75%	3.40%
2013	10.9%		6.75%	4.20%
2014	11.8%	4.95%	6.75%	3.35%
2015	13.0%	4.85%	6.50%	3.25%
2016	n/a	n/a	6.25%	n/a

"OTPP filed discount rate" relates to that used in OTPP's financial statements prepared using Part IV and that the "Province Economic Assumption for Nominal Return" relates to that used in the Province's financial statements prepared using PSAB in relation to the OTPP plan.

10/23/2018

Appendix 5: Summary of Ceiling Test Results (Various Scenarios)



Model Assumptions	Expected Future Benefit (\$ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation that is required even if a surplus is present.	\$44.6	The expected future benefit (EFB) as at March 31, 2016 exceeds the Adjusted benefit asset. There is no valuation allowance created and no reduction in the balance sheet asset position.
2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period covered by the current funding report. Contribution requirements are therefore \$1.7B per year for 2015, 2016 and 2017.	\$41.8	The minimum contribution requirement applies to the period covered by the funding report until a new report is completed. We do not know the minimum funding requirement after that date. EFB is reduced as of March 31, 2016 by the present value of the minimum contributions of \$1.3B in 2016 (9 months left) and \$1.7B in 2017. Still EFB exceeds the Adjusted benefit asset.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of expected special contribution requirement (i.e. 11 years through 2026).	\$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. When special contribution is present, the basic contribution cannot be reduced either. Once special contribution ends (2026) expected situation is surplus using the Province accounting best estimate assumption for asset return. The EFB at March 31, 2016 is reduced by \$15.3B. Still EFB exceeds the Adjusted benefit asset.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus above the threshold is used at 50 % for employees in benefit improvement and 50 % for the Province to reduce contributions in the following years.	\$23.2	The ITA surplus limit is reached at the end of 2024, leading to forced contribution reductions from 2025. The EFB is reduced by \$21.4B at March 31, 2016. Still EFB exceeds the Adjusted benefit asset.
5. Every year, 50 % of current year surplus is applied to improve member benefits and the remaining 50 % of the current year surplus is retained and continues to accrue unused. Once the unused portion attains the ITA threshold, the excess surplus is used 50 % - 50 % to reduce contributions by employees and the Province.	\$14.2	The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. The EFB is reduced by \$30.4B at March 31, 2016. Still EFB exceeds the Adjusted benefit asset.

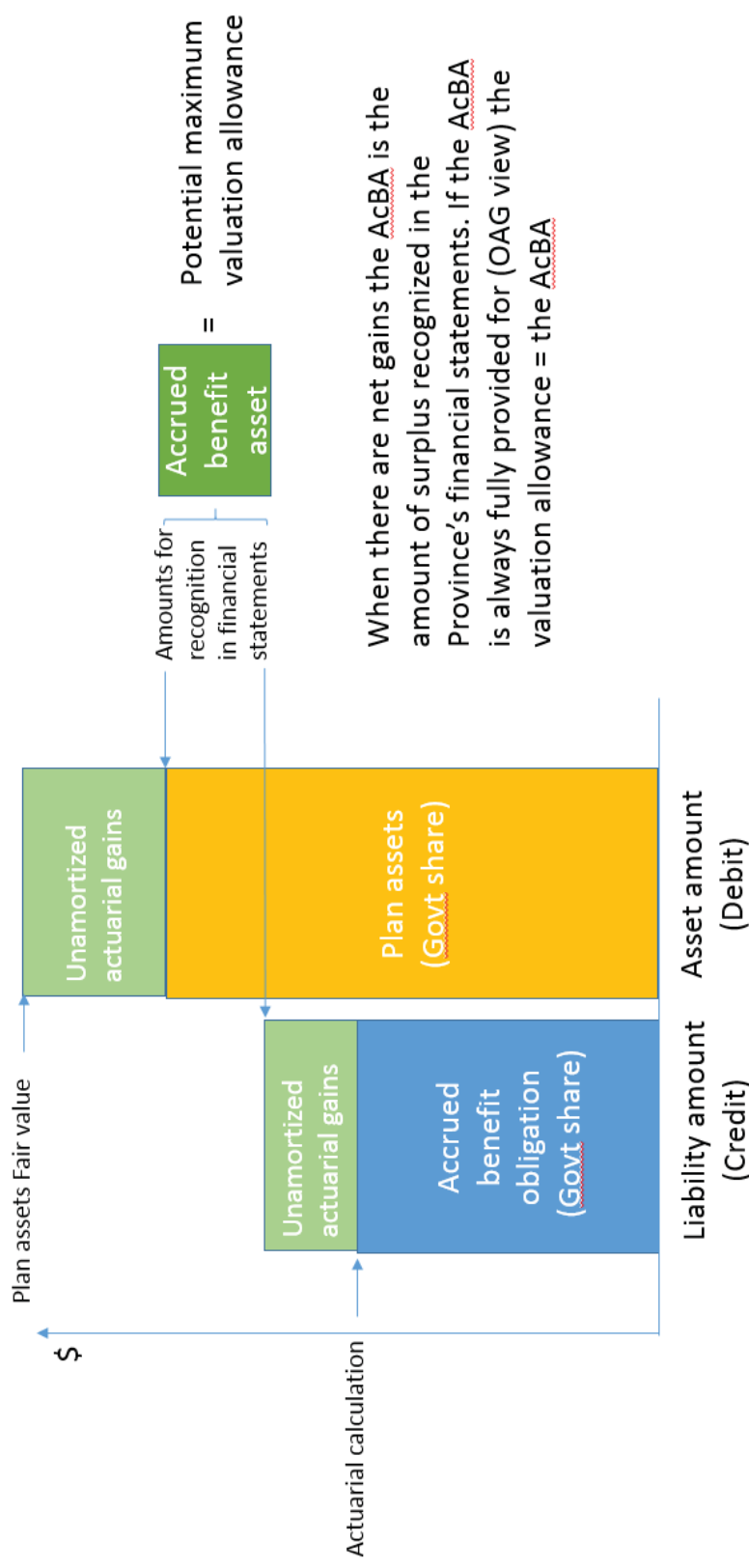
Appendix 6: Discount rates used by other Senior Canadian Governments and Pension Plans



Government		Plan - Funding		Plan F/S	
Ontario – LT ROR	6.25	OTPP	4.85 %	OTPP – MR of Prov. Bonds	3.25
Alberta – LT ROR	6.5	AB – Post 1992 PP	6	AB TPP – LT ROR	7.0
Saskatchewan – LT ROR	6.5	SK – SHEPP	NA	SK – LT ROR	6.5
BC – LT ROR	6.5	BC – PSPP	6.5	BC – LT ROR	6.5
Quebec LT ROR	6.5	QC - CARRA	5.8	QC – LT ROR	6.4
NFLD – LT ROR	6.3	NFLD – MUPP	5.8	NFLD – LT ROR	5.8
NS – LT ROR	7.75	NS - NSTPP	6.25	NS – LT ROR	6.25
MB – LT ROR	6.25	MB - MTPP	6	MB – LT ROR	6

Appendix 7: Measurement of a pension asset ¹

An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains. Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



2 - Email - November 18 2016 - Re_ OTTP chart.pdf

From: [Petsche, Nadine \(TBS\)](#)
To: [Veinot, Cindy \(TBS\)](#); [Tam, Nelson \(TBS\)](#); [Patel, Bharat \(TBS\)](#)
Cc: [Danek, Mary \(TBS\)](#)
Subject: Re: OTPP chart
Date: November-18-16 11:08:37 AM

This is the chart just sent Mary. N

From: Veinot, Cindy (TBS)
Sent: Friday, November 18, 2016 11:06 AM
To: Tam, Nelson (TBS); Patel, Bharat (TBS)
Cc: Danek, Mary (TBS); Petsche, Nadine (TBS)
Subject: FW: OTPP chart

Bharat – can you create a version with the table at the top of the graph that includes the numbers and set the printing to print on legal size paper

Mary – can you print the revised copy once received.

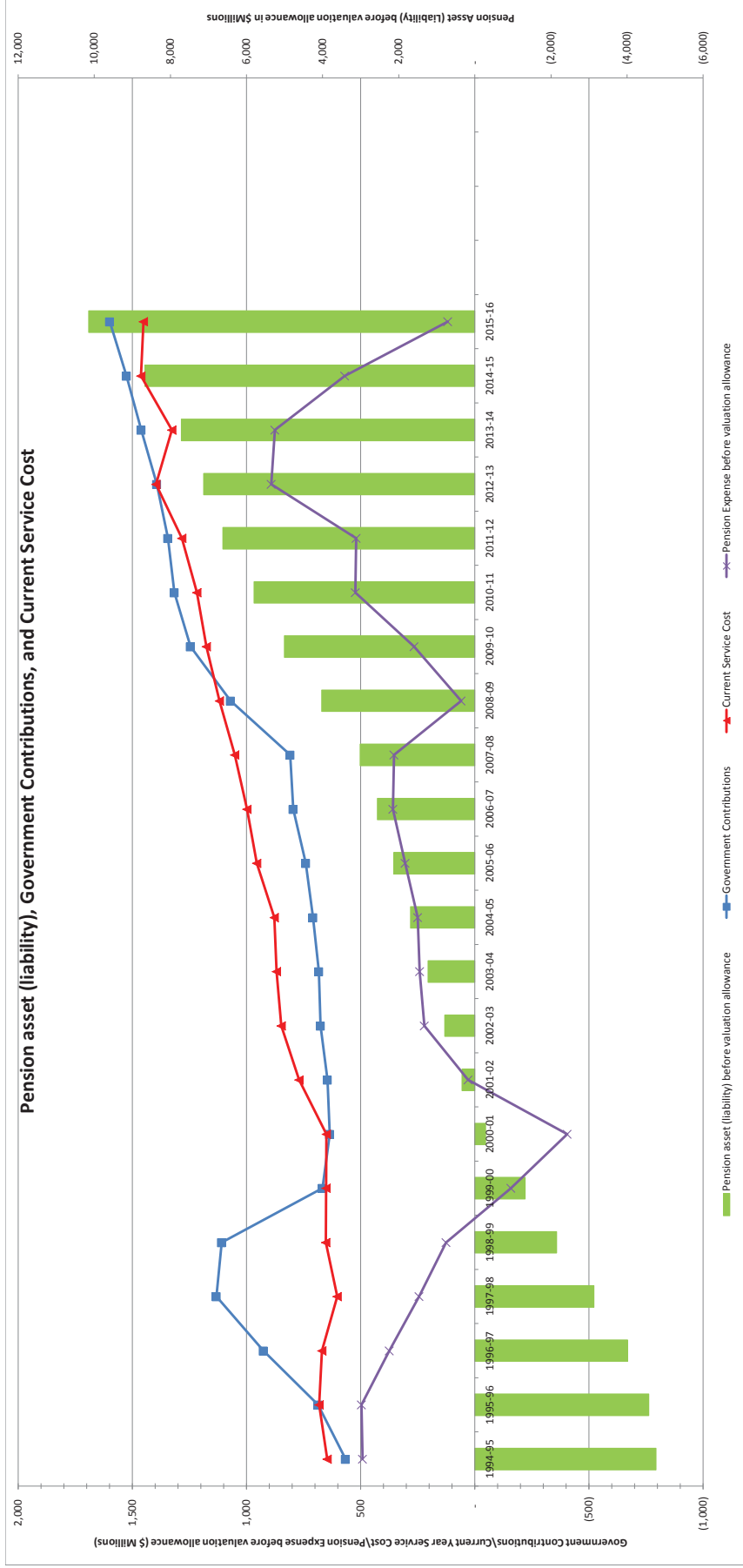
Thanks,

From: Petsche, Nadine (TBS)
Sent: November-18-16 11:00 AM
To: Tam, Nelson (TBS)
Cc: Danek, Mary (TBS); Veinot, Cindy (TBS)
Subject: Fw: OTPP chart

Please print copies for the panel

From: Patel, Bharat (TBS) <Bharat.Patel3@ontario.ca>
Sent: Friday, November 18, 2016 10:57 AM
To: Petsche, Nadine (TBS)
Subject: OTPP chart

2 - OTPP Chartv2.pdf



British Columbia Public Accounts.pdf

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2015/16



Public Accounts

Ministry of Finance
Office of the
Comptroller General

For the Fiscal Year Ended
March 31, 2016



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July 21, 2016
Victoria, British Columbia

Lieutenant Governor of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR:

The undersigned has the honour to present the Public Accounts of the Government of the Province of British Columbia for the fiscal year ended March 31, 2016.

MICHAEL DE JONG
Minister of Finance

*Ministry of Finance
Victoria, British Columbia*

*Honourable Michael de Jong
Minister of Finance*

I have the honour to submit herewith the Public Accounts of the Government of the Province of British Columbia for the fiscal year ended March 31, 2016.

Respectfully submitted,

STUART NEWTON
Comptroller General

British Columbia's Public Accounts

The Public Accounts include the Summary Financial Statements of the provincial Government Reporting Entity which includes the financial results of all ministries and Crown agencies presented on a consolidated basis. The supporting notes and schedules define the accounting policies followed in preparing the province's financial statements and form an integral part of the overall financial picture of the province's financial activities in fiscal year 2015/16.

Responsibility for the preparation of the government's financial statements rests with the Office of the Comptroller General. The accounting standards followed by the province are established in section 23.1 of the *Budget Transparency and Accountability Act*. Although accounting policies are based in Public Sector Accounting Standards (PSAS), the application of standards to specific programs and transactions is the responsibility of the preparer who must use professional judgement to determine the treatment that is most representative of the underlying economic substance and best serves the information requirements of the users of government financial statements. To ensure due diligence in the application of accounting policies, decisions are based on comprehensive understanding of the substance of transactions, reference to existing and emerging accounting standards, and consultation with standard setters, other jurisdictions and the audit community.

We are fortunate in British Columbia to have had a review of the budget and reporting process. The Budget Process Review Panel report set out some very clear principles for financial reporting based on user needs. At that time PSAS were determined to best meet the needs identified in the report. This has guided our principles-based financial reporting since then. Currently, much of the challenge faced by changing accounting standards relates to PSAS moving away from some of the principles included in the Budget Process Review Panel report. These principles have been used by government as the basis for budgeting annual expenditures and relied upon by users of the financial statements in establishing the government's accountability for financial management and ensuring consistency in presentation.

Despite the growing complexity of the reporting process, British Columbia remains committed to timely delivery of the Public Accounts each year and continues to focus on consistency in budgeting and financial reporting based on the comparability of its Estimates and Public Accounts, and the focus on "one bottom line"; that is, the Summary Financial Statements of the province.

Throughout the year, we work with the Office of the Auditor General to implement changes in accounting standards, address audit findings and recommendations, and improve the transparency of financial reporting. In doing so, we are mindful of the need to maintain consistency in the fundamental principles of accounting, and the comparability of financial information over a long period of time. This continuity allows the users of financial information to compare government's financial performance against their fiscal plan, and to understand the province's financial performance over longer periods of time. These objectives help to demonstrate accountability for financial performance to the public, both in the current year and over the longer term.

One qualification regarding government transfers remains: how to account for the government transfers is still the subject of much debate nationally and internationally among both preparers and auditors. In the absence of a clear consensus on the application of the standard, it would be imprudent to make such a significant change only to have to change back at a later date. Therefore, until the situation is resolved, I have chosen to maintain our current position to ensure the long term comparability of financial information from year to year. We will continue to work with standard setters, other jurisdictions, the accounting community, and the Auditor General's Office towards a consistent application of the transfer standard.

I would like to thank the Select Standing Committee on Public Accounts of the Legislative Assembly, government ministries, Crown corporations and agencies, and the Auditor General and her staff for their cooperation and support in preparing the 2015/16 Public Accounts.

Comments or questions regarding the Public Accounts document are encouraged and much appreciated. Please direct your comments or questions to me by mail at PO Box 9413 STN PROV GOVT, Victoria BC V8W 9V1; e-mail at: Stuart.Newton@gov.bc.ca; by telephone at 250-387-6692, or by fax at 250-356-2001.

Further information on the government's financial performance is also provided through the Consolidated Revenue Fund Extracts (available on the Internet – website <http://www.fin.gov.bc.ca/ocg.htm>). These extracts compare actual to planned spending of ministries on an appropriation basis, fulfilling ministries accountability back to the Legislative Assembly.

STUART NEWTON
Comptroller General

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Public Accounts Content

Financial Statement Discussion and Analysis (Unaudited)—this section provides a written commentary on the Summary Financial Statements plus additional information on the financial performance of the provincial government.

Summary Financial Statements—these audited statements have been prepared to disclose the financial impact of the government's activities. They aggregate the Consolidated Revenue Fund (CRF), the taxpayer-supported Crown corporations and agencies (government organizations), the self-supported Crown corporations and agencies (government business enterprises) and the school districts, universities, colleges, institutes and health organizations (SUCH) sector.

Supplementary Information (Unaudited)—this section provides supplementary schedules containing detailed information on the results of those Crown corporations and agencies that are part of the government reporting entity and the impact of the SUCH sector on the province's financial statements.

Consolidated Revenue Fund Extracts (Unaudited)—the CRF reflects the core operations of the province as represented by the operations of government ministries and legislative offices. Its statements are included in an abridged form. The CRF Extracts include a summary of the CRF Statement of Financial Position, the CRF Statement of Operating Results, the CRF Statement of Cash Flow, a CRF Schedule of Net Revenue by Source, a CRF Schedule of Expenses, a CRF Schedule of Financing Transactions, and a CRF Schedule of Write-offs, Extinguishments and Remissions, as required by statute.

Provincial Debt Summary—this section presents unaudited schedules and unaudited statements that provide further details on provincial debt and reconcile the Summary Financial Statements debt to the province's total debt. Also included are the audited Summary of Provincial Debt, Key Indicators of Provincial Debt and Summary of Performance Measures.

This publication is available on the Internet at: www.fin.gov.bc.ca

Additional Information Available (Unaudited)

The following information is available only on the Internet at: www.fin.gov.bc.ca

Consolidated Revenue Fund Supplementary Schedules—this section contains schedules that provide details of financial activities of the CRF, including details of expenses by ministerial appropriations, an analysis of statutory appropriations, Special Accounts and Special Fund balances and operating statements, and financing transactions.

Consolidated Revenue Fund Detailed Schedules of Payments—this section contains detailed schedules of salaries, wages, travel expenses, grants and other payments.

Financial Statements of Government Organizations and Enterprises—this section contains links to the audited financial statements of those Crown corporations, agencies and SUCH sector entities that are included in the government reporting entity.

Legislative Compliance and Accounting Policy Report

The focus of the province's financial reporting is the Summary Financial Statements, which consolidate the operating and financial results of the province's Crown corporations, agencies, school districts, universities, colleges, institutes and health organizations with the Consolidated Revenue Fund. These are general-purpose statements designed to meet, to the extent possible, the information needs of a variety of users.

The Public Accounts are prepared in accordance with the *Financial Administration Act* and the *Budget Transparency and Accountability Act* (BTAA).

The BTAA was amended in 2001 with the passing of Bill 5. Under section 20 of that Bill, the government has mandated that "all accounting policies and practices applicable to documents required to be made public under this Act for the government reporting entity must conform to generally accepted accounting principles."

For senior governments, generally accepted accounting principles (GAAP) is generally considered to be the recommendations and guidelines of the Canadian Public Sector Accounting Board.

Section 4.1 of the BTAA established an Accounting Policy Advisory Committee (APAC) to advise Treasury Board on the implementation of GAAP for the government reporting entity (GRE). With the government's transition to full GAAP for the 2004/05 year, the role of APAC changed to include the provision of advice on evolving developments in accounting standards by the accounting profession, as well as emerging issues within government.

Financial Statement Discussion and Analysis Report

Highlights

The highlights section provides a summary of the key events affecting the financial statements based on information taken from the Summary Financial Statements and Provincial Debt Summary included in the Public Accounts. The budget figures are from pages 118, 120, 123, 124, 126 and 128 of the *Budget and Fiscal Plan 2015/16–2017/18*.

Budget and Actual Results 2015/16

	In Millions				Variance	
	2015/16 Budget	2015/16 Updated Forecast	2015/16 Actual	2014/15 Actual	2015/16 Actual to Budget	2015/16 vs 2014/15
	\$	\$	\$	\$	\$	\$
Revenue.....	46,365	46,992	47,606	46,131	1,241	1,475
Expense.....	(45,831)	(46,365)	(46,876)	(44,439)	(1,045)	(2,437)
Surplus(deficit) before forecast allowance	534	627	730	1,692	196	(962)
Forecast allowance.....	(250)	(250)			250	
Surplus (deficit) for the year.....	284	377	730	1,692	446	(962)
Capital spending:						
Taxpayer-supported capital spending....	3,731	3,631	3,459	3,407	(272)	52
Self-supported capital spending.....	2,518	2,604	2,542	2,488	24	54
Total capital spending.....	6,249	6,235	6,001	5,895	(248)	106
Provincial debt:						
Taxpayer-supported.....	43,182	42,709	42,727	41,880	(455)	847
Self-supported.....	22,528	22,331	22,565	21,040	37	1,525
Total provincial debt.....	65,710	65,040	65,292	62,920	(418)	2,372
Taxpayer-supported debt to GDP ratio	17.4 %	17.4 %	17.4 %	17.5 %	0.0	(0.1)

Summary Accounts Surplus (Deficit)

The province ended the year with a surplus of \$730 million, which was \$446 million higher than the surplus forecast in the *Budget and Fiscal Plan 2015/16–2017/18*. The 2015/16 surplus of \$730 million was \$962 million less than the surplus of \$1,692 million in fiscal year 2014/15.

Revenue increased by \$1,475 million over fiscal year 2014/15 mainly due to taxation revenue, which increased \$1,270 million over the prior year, \$1,200 million more than budget.

Expense increased by \$2,437 million over fiscal year 2014/15 mainly in the health, education, and natural resource sectors. Increased spending was \$1,045 million more than budget.

Financial Statement Discussion and Analysis Report

Capital Spending

Taxpayer-supported infrastructure spending on hospitals, schools, post-secondary facilities, transit, and roads totaled \$3,459 million in 2015/16, \$272 million lower than budget mainly due to project scheduling changes. This spending has been deferred to future years.

Self-supported infrastructure spending on electrical generation, transmission and distribution projects, the Port Mann Bridge and other capital assets totaled \$2,542 million in 2015/16. Self-supported capital spending was \$24 million higher than budget.

Provincial Debt

When calculating total provincial debt, the province adds to its financial statement debt, all debt guarantees and the debt directly incurred by self-supported Crown corporations, reduced by sinking fund assets. This balance is referred to as the total provincial debt.

Taxpayer-supported provincial debt increased by \$847 million in 2015/16 while self-supported provincial debt increased by \$1,525 million. The increase in total provincial debt of \$2,372 million was \$418 million less than the budgeted increase in total debt of \$2,790 million. The key measure of taxpayer-supported debt to GDP ended the year at 17.4%, consistent with the 17.4% forecasted in the budget.

Provincial government direct operating debt decreased by \$1,246 million compared to 2014/15.

Financial Statement Discussion and Analysis Report

Discussion and Analysis

The detailed analysis section provides an overview of significant trends relating to the Statement of Operations, Statement of Financial Position and Provincial Debt.

Revenue Analysis

Revenue analysis helps users understand the government's finances in terms of its revenue sources and allows them to evaluate the revenue producing capacity of the government.

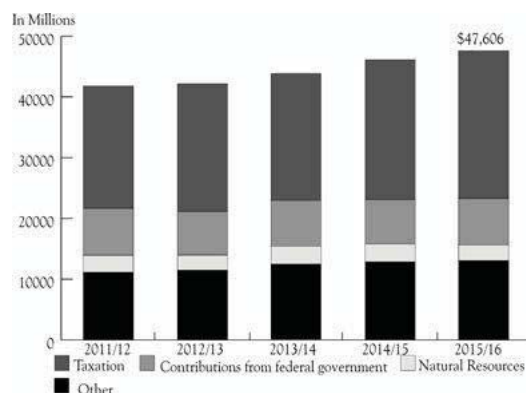
Revenue by Source

Revenue by source provides an outline of the primary sources of provincial revenue and how results change between those sources over time. Revenues are broken down into separate components of taxation, contributions from the federal government, natural resources and other sources, which include fees and licenses, contributions from self-supported Crown corporations, and investment income.

	In Millions				
	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual
	\$	\$	\$	\$	\$
Taxation.....	20,145	21,050	20,930	23,056	24,326
Contributions from federal government.....	7,724	7,047	7,514	7,279	7,647
Fees and licences.....	4,735	4,907	5,210	5,425	5,836
Miscellaneous.....	2,676	2,615	3,202	2,860	3,298
Net earnings of self-supported Crown corporations.....	2,691	2,776	2,701	3,371	2,702
Natural resources.....	2,812	2,473	2,955	2,937	2,571
Investment income.....	1,022	1,173	1,236	1,203	1,226
Total revenue.....	41,805	42,041	43,748	46,131	47,606

2011/12 to 2015/16

Provincial revenues increased by \$1,475 million in 2015/16. The improvement in provincial revenue was primarily due to increases in taxation revenue of \$1,270 million. Contributions from the federal government increased \$368 million and fees and licences revenue increased by \$411 million. Increases in these significant sources of revenue were offset by net earnings of self-supported Crown corporations, which were \$669 million lower than in 2014/15. All other sources of revenue were \$95 million higher than in 2014/15.



In 2015/16, tax revenue increased by \$1,270 million (5.5%). Personal income tax revenue increased by \$304 million (3.8%) reflecting normal annual growth in the tax base. Corporate income tax revenue increased by \$152 million (5.8%) due to a higher settlement payment for the prior year and increased federal government instalments. Provincial sales tax increased by \$192 million (3.3%) reflecting higher consumer expenditures and retail sales. Property transfer tax revenue increased by \$468 million (43.9%) due to stronger housing sales and increased property values. Tobacco tax revenue decreased by \$18 million (2.4%) in 2015/16, and all other tax revenues increased by \$172 million over the same period.

The net earnings of self-supported Crown corporations including BC Hydro, ICBC, BC Lottery Corporation and the Liquor Distribution Branch were \$669 million lower than 2014/15.

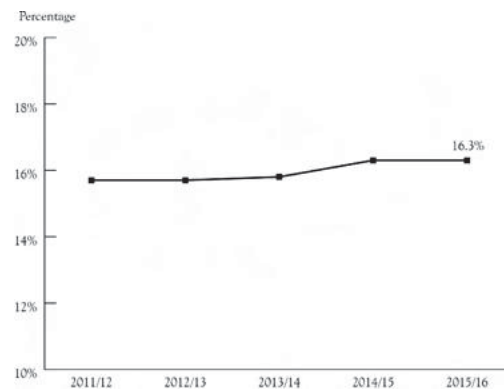
Contributions from the federal government were \$368 million higher than contributions received in 2014/15. This increase was mainly the result of the improved BC population share of Canada Health and Social Transfers.

Own-source Revenue to GDP

Own-source revenue to GDP has remained stable in 2015/16 ending the year at 16.3%.

Trend analysis of revenue provides users with information about significant changes in revenue over time and between sources. This enables users to evaluate past performance and assess potential implications for the future.

2011/12 to 2015/16



Percentage

125%

115%

105%

95%

85%

2011/12 2012/13 2013/14 2014/15 2015/16

Legend:

- ◆ Gross Domestic Product
- ▲ Contributions from federal government
- Fees and licences
- Taxation
- Natural resources

Year	Gross Domestic Product	Contributions from federal government	Fees and licences	Taxation	Natural resources
2011/12	100.0	100.0	100.0	100.0	100.0
2012/13	100.0	93.0	100.0	103.0	88.0
2013/14	100.0	97.0	103.0	100.0	100.0
2014/15	103.0	95.0	103.0	115.0	100.0
2015/16	113.9	99.0	123.3	120.8	91.4

Financial Statement Discussion and Analysis Report

Natural Resource Revenue

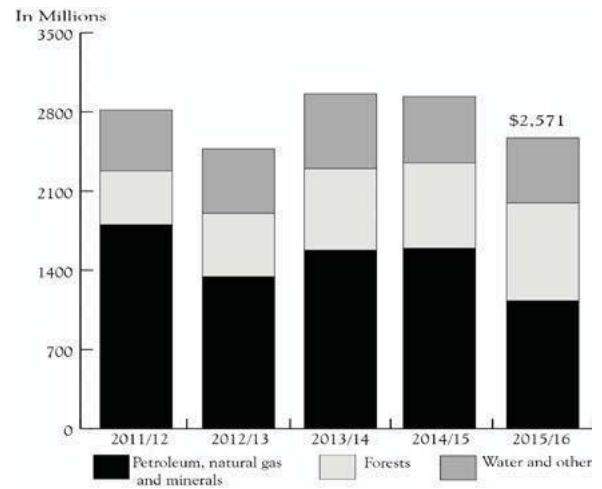
The chart of natural resource revenue by source explains past trends of natural resource revenue in total and by major category.

Petroleum, natural gas and mineral revenues decreased by \$464 million from 2014/15. These categories of natural resource revenue account for 44.0% of natural resource revenue compared to 54.3% in 2014/15.

Forestry revenue increased by \$111 million in 2015/16. The proportion of natural resource revenue derived from forestry increased to 33.6% in 2015/16 from 25.6% in 2014/15.

Water and other resource revenues decreased by \$13 million in the year. They comprise 22.4% of provincial natural resource revenue.

2011/12 to 2015/16

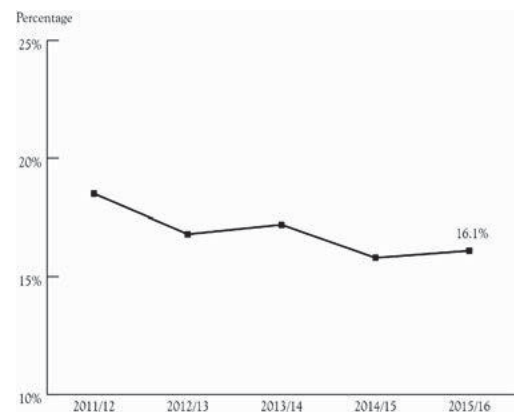


Government-to-Government Transfers to Total Revenue

The ratio of government-to-government transfers to total revenue is an indicator of how dependent the province is on transfers from the federal government. An increasing trend shows more reliance and a decreasing trend shows less.

Federal transfers increased by \$368 million in 2015/16, roughly in line with the growth in total revenue. This increase was mainly the result of annual adjustment to the province's share of Canada Health and Social Transfers.

2011/12 to 2015/16



Financial Statement Discussion and Analysis Report

Expense Analysis

The following analysis helps users understand the impact of the government's spending on the economy, the government's allocation and use of resources, and the cost of government programs.

Expense by Function

Expense by function provides a summary of the major areas of government spending, and changes in spending over time. Functions, which indicate the purpose of expenditures, are defined by Statistics Canada's Financial Management System of Government Statistics. The province uses the following functions: health, education, social services, interest, natural resources and economic development, transportation, other, protection of persons and property, and general government. The health, education and social services functions account for approximately three quarters of the province's total operating costs.

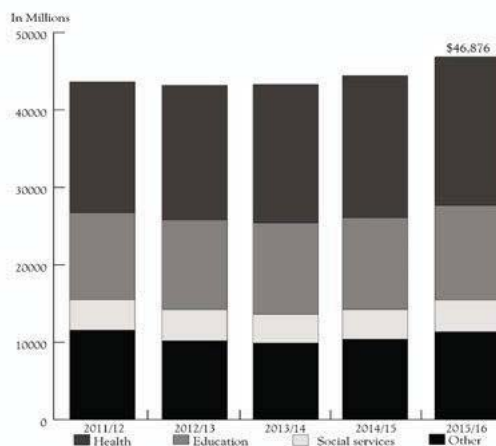
In Millions

	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual
	\$	\$	\$	\$	\$
Health.....	16,917	17,502	17,862	18,370	19,203
Education.....	11,227	11,528	11,827	11,827	12,212
Social services.....	3,940	3,990	3,805	3,847	4,106
Interest.....	2,383	2,390	2,482	2,498	2,786
Natural resources and economic development.....	1,873	2,092	1,755	2,191	2,562
Transportation.....	1,545	1,555	1,580	1,608	1,670
Other.....	1,415	1,346	1,184	1,288	1,264
Protection of persons and property.....	1,512	1,539	1,520	1,451	1,572
General government.....	2,834	1,262	1,386	1,359	1,501
Total expense.....	43,646	43,204	43,401	44,439	46,876

2011/12 to 2015/16

Government program spending increased by \$2,437 million in 2015/16.

The province increased spending on the health sector by \$833 million (4.5%), the education sector by \$385 million (3.3%), the natural resource and economic development sector by \$371 million (16.9%), and the social services sector by \$259 million (6.7%). Spending in all of the other sectors increased by \$589 million over 2014/15.



Financial Statement Discussion and Analysis Report

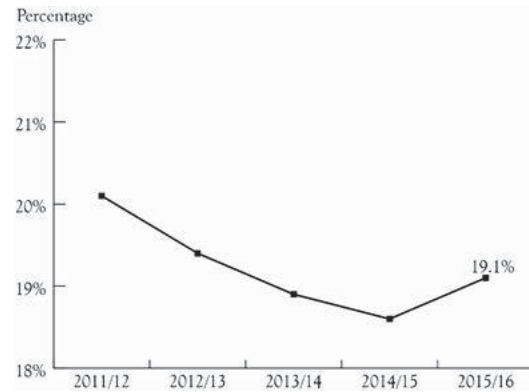
In 2015/16, provincial operating expenses were \$46,876 million, a \$2,437 million (5.5%) increase from 2014/15. Program spending has increased by \$3,230 million (7.4%) since 2011/12. This is compared to increases in GDP of 12.7% over the same period.

Expense to GDP

The ratio of expense to GDP represents the amount of government spending in relation to the overall provincial economy.

Government spending as a percentage of GDP increased from 18.6% to 19.1% in 2015/16, indicating that government spending increased slightly as a proportion of economic growth as represented by GDP.

2011/12 to 2015/16



Financial Statement Discussion and Analysis Report

Changes in Actual Results from 2014/15 to 2015/16

	In Millions		
	Revenue	Expense	Surplus
	\$	\$	\$
2014/15 Surplus	46,131	44,439	1,692
Increase in taxation revenue.....	1,270		1,270
Increase in contributions from federal government.....	368		368
Increase in fees and licences revenue.....	411		411
Decrease in earnings from self-supported Crown corporations.....	(669)		(669)
Increase in other revenue.....	95		95
Increase in health spending.....		833	(833)
Increase in educational spending.....		385	(385)
Increase in natural resource and economic development.....		371	(371)
Increase in social services spending.....		259	(259)
Increase in other expenses.....		589	(589)
Subtotal of changes in actual results.....	<u>1,475</u>	<u>2,437</u>	<u>(962)</u>
	<u>47,606</u>	<u>46,876</u>	
2015/16 Surplus			<u>730</u>
2014/15 Accumulated Surplus			<u>3,073</u>
2015/16 Accumulated Surplus before Accumulated Other Comprehensive income			<u>3,803</u>
Accumulated other comprehensive income from self-supported Crown corporations and agencies.....			<u>(424)</u>
2015/16 Accumulated Surplus			<u>3,379</u>

The year over year increase in total revenue of \$1,475 million, offset by the increase in total expense of \$2,437 million, resulted in a surplus that was \$962 million lower than 2014/15. Accumulated surplus increased from \$3,296 million in 2014/15 to \$3,379 million at the end of 2015/16.

Financial Statement Discussion and Analysis Report

Changes from 2015/16 Budget

	In Millions			
	Revenue	Expense	Forecast Allowance	Surplus
	\$	\$	\$	\$
Surplus per 2015/16 Budget.....	46,365	45,831	(250)	284
Increased taxation revenue.....	1,200			1,200
Increased fees and licences.....	202			202
Decreased other revenues.....	(161)			(161)
Increased natural resources and economic development spending.....		695		(695)
Increased protection of person and property spending....		149		(149)
Increased general government spending.....		221		(221)
Increased health spending.....		142		(142)
Decreased other program spending.....		(162)		162
Forecast allowance.....			250	250
Subtotal of changes in actual results compared to budget.....	1,241	1,045	250	446
Actual Results.....	47,606	46,876	0	730

Revenue was \$1,241 million (2.7%) higher than the budgeted amount of \$46,365 million and expenses were \$1,045 million (2.3%) higher than the budgeted amount of \$45,831 million.

Net Liabilities and Accumulated Surplus

In accordance with Canadian generally accepted accounting principles, the government's Consolidated Statement of Financial Position is presented on a net liabilities basis. Net liabilities represent net future cash outflows resulting from past transactions and events. An analysis of net liabilities and accumulated surplus helps users to assess the government's overall financial position and the future revenue required to pay for past transactions and events.

	In Millions			Variance	
	2015/16 Budget	2015/16 Actual	2014/15 Actual	2015/16 Budget to Actual	2015/16 vs 2014/15
	\$	\$	\$	\$	\$
Financial assets.....	42,709	44,697	42,669	1,988	2,028
Less: liabilities.....	(83,764)	(84,332)	(81,235)	(568)	(3,097)
Net Liabilities.....	(41,055)	(39,635)	(38,566)	1,420	(1,069)
Less: non-financial assets.....	43,971	43,014	41,862	(957)	1,152
Accumulated surplus.....	2,916	3,379	3,296	463	83

Financial Statement Discussion and Analysis Report

The accumulated surplus represents the sum of the current and prior years' operating results, and accumulated changes in other comprehensive income. At March 31, 2016, the accumulated surplus was \$3,379 million, \$463 million higher than budget.

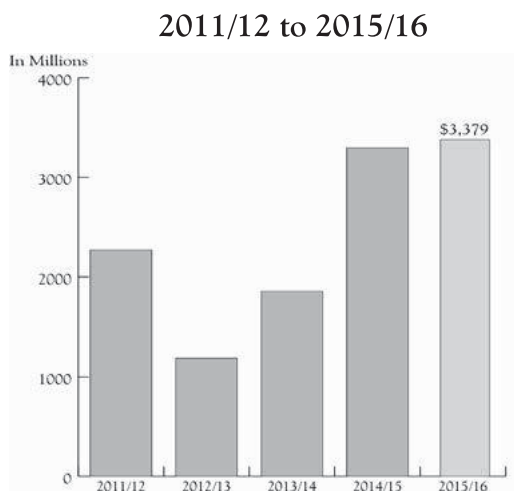
Financial assets were \$2,028 million higher than 2014/15 as the result of increases in cash, cash equivalents, and temporary investments of \$217 million, accounts receivable of \$272 million, loans for the purchase of assets, recoverable from agencies of \$1,450 million and \$861 million in other financial assets. These increases were offset by decreases in equity of self-supported Crown corporations and agencies of \$772 million.

Liabilities increased by \$3,097 million from 2014/15. Self-supported debt increased by \$1,460 million and taxpayer-supported debt increased by \$1,434 million to fund infrastructure programs, provide capital financing to self-supported Crown corporations and agencies, and support working capital requirements. Other liabilities, including accounts payable and deferred revenue, increased by \$203 million from 2014/15.

Non-financial assets typically represent resources, such as tangible capital assets, that the government can use in the future to provide services. Non-financial assets increased by \$1,152 million over 2014/15 as government invested in infrastructure spending.

Accumulated Surplus

The accumulated surplus represents current and all prior years' operating results. In 2015/16, the province had an accumulated surplus of \$3,379 million, \$83 million higher than in 2014/15. The positive operating results of prior years and the current year provide the flexibility to sustain core public services.



Financial Statement Discussion and Analysis Report

Components of Net Liabilities

Financial Assets

Trend analysis of financial assets provides users with information regarding the amount of resources available to the government that can be converted to cash to meet obligations or fund operations.

	In Millions				
	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual
	\$	\$	\$	\$	\$
Cash, cash equivalents, temporary investments and warehouse investments.....	3,235	3,174	2,802	3,676	3,893
Accounts receivable.....	2,408	2,456	3,449	3,489	3,761
Equity in self-supported Crown corporations and agencies.....	6,998	7,541	7,839	8,271	7,499
Loans for the purchase of assets, recoverable from agencies.....	15,167	17,208	19,255	20,624	22,074
Other financial assets.....	7,021	7,508	6,722	6,609	7,470
Total financial assets.....	34,829	37,887	40,067	42,669	44,697

In 2015/16, financial assets increased by \$2,028 million primarily due to an increase in capital loans to Crown agencies. Recoverable capital loans increased by \$1,450 million as the province provided funding to Crown agencies for capital projects, equity in self-supported Crown corporations decreased by \$772 million, and all other financial assets increased by \$1,350 million.

Liabilities

Trend analysis of liabilities provides users with information to understand and assess the demands on financial assets and the revenue raising capacity of government.

	In Millions				
	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual
	\$	\$	\$	\$	\$
Taxpayer-supported debt.....	36,012	39,828	41,761	42,693	44,127
Self-supported debt.....	14,942	17,011	19,041	20,465	21,925
Total financial statement debt.....	50,954	56,839	60,802	63,158	66,052
Accounts payable and other liabilities.....	9,119	9,149	8,298	8,312	8,571
Deferred revenue.....	10,449	9,881	9,683	9,765	9,709
Total liabilities.....	70,522	75,869	78,783	81,235	84,332

In 2015/16, total liabilities increased by \$3,097 million. Liabilities are obligations that must be settled at a future date by the transfer or use of assets. Taxpayer-supported financial statement debt increased in 2015/16 by \$1,434 million, while self-supported financial statement debt increased by \$1,460 million. Information relating to the government's debt management can be found in more detail in the analysis of the total provincial debt on page 25. Deferred revenue decreased by \$56 million while accounts payable and other liabilities increased by \$259 million.

Financial Statement Discussion and Analysis Report

Non-financial Assets

Trend analysis of non-financial assets provides users with information to assess the management of a government's infrastructure and long-term non-financial assets.

	In Millions				
	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual
	\$	\$	\$	\$	\$
Tangible capital assets.....	35,692	36,762	37,778	39,028	40,282
Other non-financial assets.....	2,271	2,408	2,800	2,834	2,732
Total non-financial assets.....	37,963	39,170	40,578	41,862	43,014

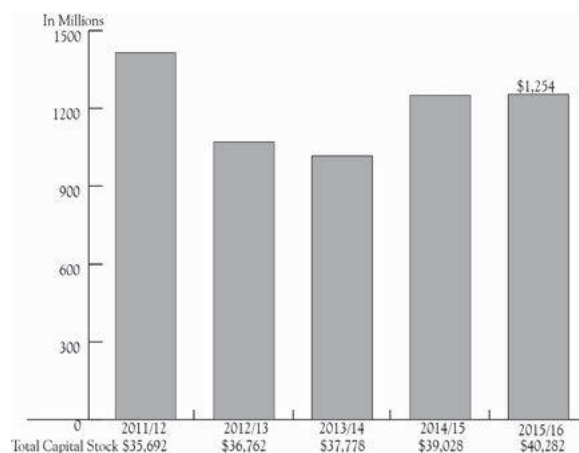
Management of non-financial assets has a direct impact on the level and quality of services a government is able to provide to its constituents. Non-financial assets typically represent resources that government can use in the future to provide services. At March 31, 2016, non-financial assets were \$43,014 million which was \$1,152 million higher than 2014/15 and \$5,051 million higher than 2011/12. The majority of the province's non-financial assets represent capital expenditures for tangible capital assets net of amortization. The government has increased its investment in infrastructure spending by \$1,254 million in 2015/16, to ensure service potential is available to deliver programs and services in future periods. Capital expenditures are not included on the Consolidated Statement of Operations and have no effect on the current surplus. They reduce future surpluses in the form of amortization expense as the service potential of assets is used to deliver programs and services.

Change in Capital Stock

This measure shows the impact of net changes to the government's stock of physical capital. Positive amounts demonstrate an investment in infrastructure to replace existing capital and provide service potential in future periods.

The net annual investment in capital was \$1,254 million in 2015/16, and \$6,005 million since 2011/12. Total capital stock has also increased steadily over that period which indicates that capital infrastructure is available to continue providing programs and services in future periods.

2011/12 to 2015/16



Financial Statement Discussion and Analysis Report

Net Liabilities and Accumulated Surplus

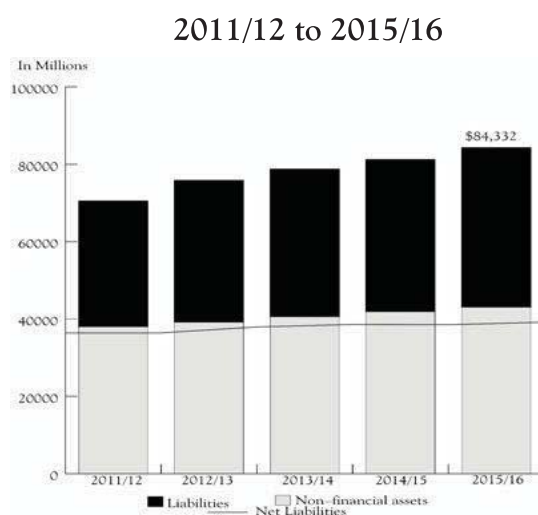
	In Millions				
	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual
	\$	\$	\$	\$	\$
Financial assets.....	34,829	37,887	40,067	42,669	44,697
Less: liabilities.....	(70,522)	(75,869)	(78,783)	(81,235)	(84,332)
Net liabilities.....	(35,693)	(37,982)	(38,716)	(38,566)	(39,635)
Less: non-financial assets.....	37,963	39,170	40,578	41,862	43,014
Accumulated surplus.....	2,270	1,188	1,862	3,296	3,379

Net liabilities increased by \$1,069 million in 2015/16, due to increases in debt related to investment in infrastructure. The liabilities include deferred revenue of \$9,709 million which represents unearned revenues and restricted contributions that will be recognized as revenue in future periods.

The financial measure of net liabilities has remained stable while investments in infrastructure have increased resulting in an increase in accumulated surplus. The accumulated surplus of the province was \$3,379 million at the end of 2015/16, indicating that the cumulative result of all past annual surpluses and deficits is positive, or that the province remains in a positive net financial position.

Non-financial Assets as a Portion of Liabilities

The chart provides an indication of what proportion of liabilities are used to fund capital infrastructure as opposed to funding working capital requirements including accounts payable and other operating liabilities, as well as revenue deferred to future periods. Over the past five years, non-financial assets have increased while the measure of net liabilities has remained stable.



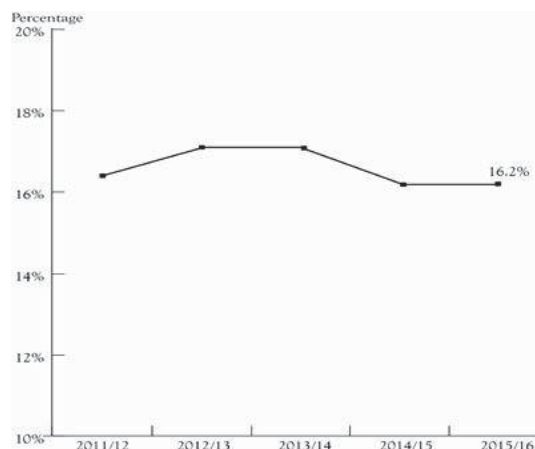
Financial Statement Discussion and Analysis Report

Net Liabilities to GDP

The net liabilities to GDP ratio provides an indication of the province's ability to maintain existing programs and meet existing creditor requirements without increasing the debt burden on the economy as a whole.

The decrease in net liabilities to GDP is the result of net liabilities remaining below the increase in economic growth as represented by GDP in 2015/16. Net liabilities include deferred revenue that will be recognized as revenue in future periods, and obligations to outside parties including accounts payable and debt.

2011/12 to 2015/16

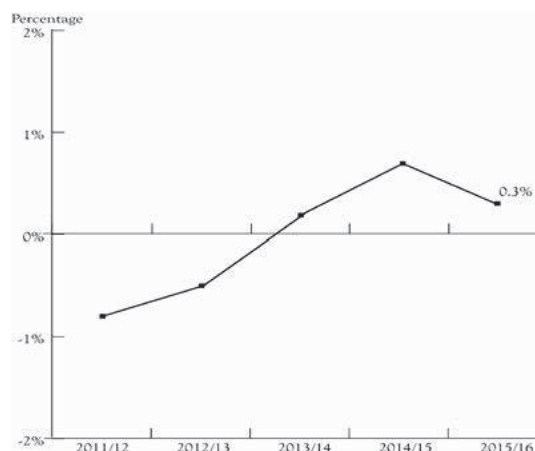


Surplus (Deficit) to GDP

The surplus (deficit) to GDP ratio is an indicator of sustainability that compares the province's financial results to the overall results of the economy.

Results in the positive range of the chart indicate that the economy is growing faster than net government spending.

2011/12 to 2015/16



Financial Statement Discussion and Analysis Report

Total Provincial Debt

Total provincial debt is calculated differently than financial statement debt. Analysis of total provincial debt helps users to assess the extent of long-term liabilities and the government's ability to meet future debt obligations.

	In Millions				
	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual
	\$	\$	\$	\$	\$
Gross debt.....	50,954	56,839	60,802	63,158	66,052
Less: sinking fund assets.....	(1,491)	(1,778)	(835)	(977)	(1,580)
Third party guarantees and non-guaranteed debt.....	730	755	726	739	820
Total provincial debt.....	50,193	55,816	60,693	62,920	65,292

When reporting to rating agencies, the province adds to its financial statement debt, all debt guarantees and the debt directly incurred by self-supported Crown corporations, reduced by sinking fund assets. This balance is referred to as the total provincial debt.

Total provincial debt is \$760 million lower than the amounts reported in the province's financial statements after deducting sinking funds held to pay down the debt, and including guaranteed debt and the debt of self-supported Crown corporations. Overall, total provincial debt increased by \$2,372 million in 2015/16 because the government borrowed to fund capital projects and working capital requirements.

The largest increases in the debt of self-supported Crown agencies were the debt of the British Columbia Hydro and Power Authority which increased by \$1,384 million and the debt of Transportation Investment Corporation which increased by \$54 million. Taxpayer-supported debt increased due to BC Transportation Financing Authority debt increasing by \$757 million; health sector debt increasing by \$476 million; education sector debt increasing by \$646 million; and other increases in taxpayer-supported debt of \$214 million.

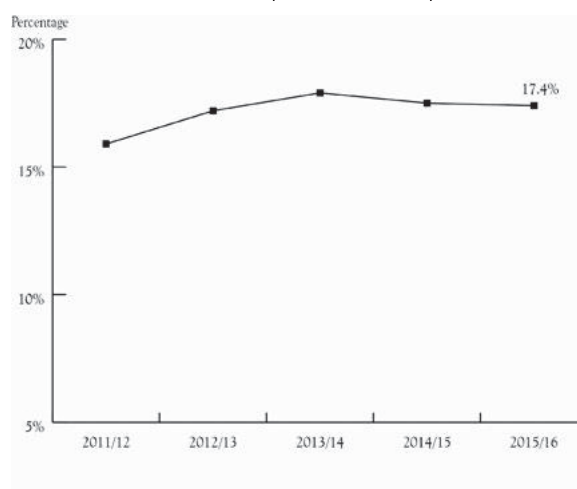
Provincial government direct operating debt decreased by \$1,246 million compared to 2014/15.

Taxpayer-supported debt to GDP

The ratio of taxpayer-supported debt to GDP is a key measure used by financial analysts and investors to assess a province's ability to repay debt and is a key measure monitored by the bond rating agencies. An increasing ratio means that debt is growing faster than the growth of the economy as measured by GDP.

At the end of 2015/16 taxpayer-supported debt to GDP was 17.4% which was the same as the budgeted level of 17.4%.

2011/12 to 2015/16



Financial Statement Discussion and Analysis Report

Strong Credit Rating

Reflecting the province's fiscal performance, British Columbia has maintained a strong and stable credit rating with all three credit rating agencies. In 2015/16, Moody's Investors Service Inc. gave the province an Aaa credit rating (2015: Aaa); Standard and Poor's gave the province an AAA credit rating (2015: AAA); and Dominion Bond Rating Service gave the province an AA(high) credit rating (2015: AA (high)).

Credit Ratings June 2016

Jurisdiction	Rating Agency ¹		
	Moody's Investors Service Inc.	Standard and Poor's	Dominion Bond Rating Service
British Columbia	Aaa	AAA	AA (high)
Alberta	Aa1	AA	AA (high)
Saskatchewan	Aaa	AA+	AA
Manitoba	Aa2	AA	A (high)
Ontario	Aa2	A+	AA (low)
Quebec	Aa2	A+	A (high)
New Brunswick	Aa2	A+	A (high)
Nova Scotia	Aa2	A+	A (high)
Prince Edward Island	Aa2	A	A (low)
Newfoundland	Aa2	A	A (low)
Canada	Aaa	AAA	AAA

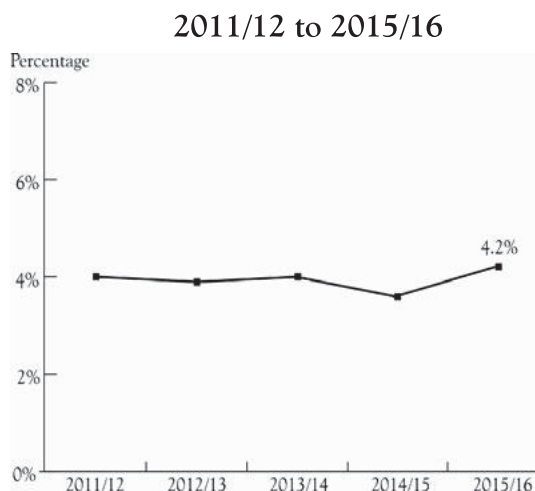
¹The rating agencies assign letter ratings to borrowers. The major categories, in descending order of credit quality, are: AAA/Aaa; AA/Aa; A; BBB/Baa; BB/Ba; and B. The "1", "2", "3", "high", "low", "-", and "+" modifiers show relative standing within the major categories. For example, AA+ exceeds AA.

A more comprehensive overview of provincial debt, including key debt indicators is located on pages 127–140.

Public Debt Charges to Revenue (the Interest Bite)

The public debt charges to revenue indicator is often referred to as the "interest bite". This provides users with the percentage of the province's revenue used to pay interest on debt. The ratio is sensitive to the cost of debt arising from either increasing interest rates or increasing debt, as well as decreases in revenue.

If an increasing proportion of provincial revenue is required to pay interest on provincial debt, less money is left to provide core public services. The interest bite has remained stable over the last five years. In 2015/16, the province spent 4.2 cents of each revenue dollar on interest on the provincial debt.



Financial Statement Discussion and Analysis Report

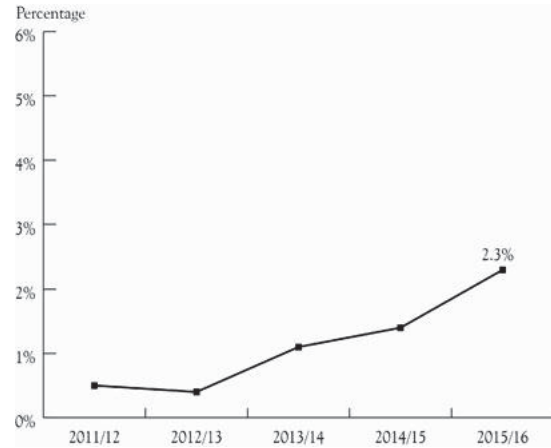
Non-Hedged Foreign Currency Debt to Total Provincial Debt

The ratio of non-hedged foreign currency debt to total provincial debt shows the degree of vulnerability of a government's public debt position to swings in exchange rates.

Non-hedged foreign currency debt directly offset by instruments in the same foreign currency are considered "natural hedges". These amounts are excluded from the ratio.

In 2015/16, the province had the equivalent of CAD\$1,246 million in natural hedges.

2011/12 to 2015/16



Financial Statement Discussion and Analysis Report

Economic Highlights

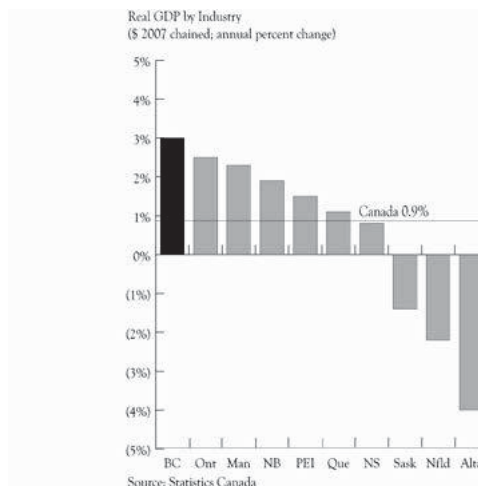
British Columbia's economy grew by an estimated 3.0% in the 2015 calendar year, the highest rate among the provinces, according to preliminary GDP by industry data from Statistics Canada. The estimated 3.0% growth for British Columbia in 2015 is higher than the government's *Budget 2016* estimate of 2.4%.

Real Gross Domestic Product in Calendar Year 2015

Growth was observed across most major industries in 2015 with the exception of mining, quarrying, and oil and gas extraction (down 7.8%) and information and cultural industries (down 0.4%). The strongest gains among industries in 2015 were observed in educational services (up 6.9%) and retail trade (up 6.3%). Agriculture, forestry, fishing and hunting also made a notable gain in 2015.

Retail sales, an indicator of consumer spending, increased by 6.0% in 2015. Also, the value of international merchandise exports from British Columbia increased by 0.6% in 2015, as unbalanced global demand and declining commodity prices took a toll on the value of British Columbia exports.

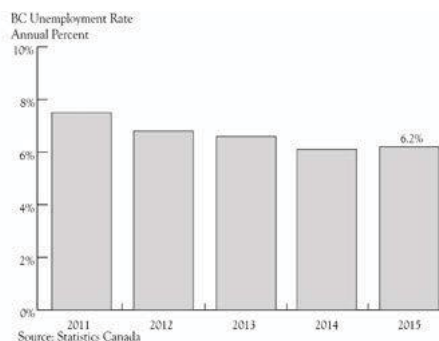
Provincial Comparison



Unemployment Rate in Calendar Year 2015

British Columbia's annual unemployment rate was 6.2% in 2015, a small increase from 6.1% observed in 2014. The unemployment rate in BC in 2015 was lower than the national average of 6.9%. The average level of employment increased by 1.2% in 2015, following a 0.6% increase in 2014.

2011 to 2015



Financial Statement Discussion and Analysis Report

Risks and Uncertainties

The government's main exposure to risks and uncertainties arises from variables, which the government does not directly control. These include:

- assumptions underlying revenue and Crown corporation forecasts such as economic factors, commodity prices and weather conditions;
- the outcome of litigation, arbitration, and negotiations with third parties;
- potential changes to federal transfer allocations, cost-sharing agreements with the federal government and impacts on the provincial income tax bases arising from federal tax policy and budget changes;
- utilization rates for government services such as health care, children and family services, and income assistance;
- exposure to interest rate fluctuations, foreign exchange rates and credit risk; and
- changes in Canadian generally accepted accounting principles.

The following are the approximate effect of changes in some of the key variables on the surplus:

Key Fiscal Sensitivities		
Variable	Increase Of	Annual Fiscal Impact (\$ millions)
Nominal GDP	1%	\$150 to \$250
Lumber prices (US\$/thousand board feet)	\$50	\$100 to \$120 ¹
Natural gas prices (Cdn\$/gigajoule)	50 cents	\$175 ²
US exchange rate (US cents/Cdn\$)	1 cent	(\$25) to (\$50)
Interest rate	1 percentage point	(\$114)
Debt	\$500 million	(\$15)

¹Sensitivity relates to stumpage revenue only. Depending on market conditions, changes in stumpage revenue may be offset by changes in border tax revenue.

²Sensitivities can vary significantly, especially at lower prices.

Although the government is unable to directly control these variables, strategies have been implemented to mitigate these risks and uncertainties. The development of taxation, financial and corporate regulatory policy to reinforce British Columbia's position as an attractive place to invest and create jobs will help offset the increase in competition for investment as a result of globalization of economic and financial markets. As in previous years, the government applied a forecast allowance in the budget to account for risks to revenue, expenditure, Crown corporations', school districts', universities', colleges', institutes', and health organizations' (SUCH sector) forecasts. The use of forecast allowances recognizes the uncertainties in predicting future economic developments.

Risk management in relation to debt is discussed in Note 20 on page 64 of the Notes to the Consolidated Summary Financial Statements.

Summary Financial Statements

Province of British Columbia

*For the Fiscal Year Ended
March 31, 2016*



Statement of Responsibility for the Summary Financial Statements of the Government of the Province of British Columbia

Responsibility for the integrity and objectivity of the Summary Financial Statements for the Government of the Province of British Columbia rests with the government. The Comptroller General prepares these financial statements in accordance with the *Budget Transparency and Accountability Act* (BTAA), which requires generally accepted accounting principles (GAAP) for senior governments in Canada, supported by regulations of Treasury Board under the BTAA. The fiscal year of the government is from April 1 to March 31 of the following year.

To fulfill its accounting and reporting responsibilities, the government maintains financial management and internal control systems. These systems give due consideration to costs, benefits and risks, and are designed to provide reasonable assurance that transactions are properly authorized by the Legislative Assembly, are executed in accordance with prescribed regulations and are properly recorded. This is done to maintain accountability of public money and safeguard the assets and properties of the Province of British Columbia under government administration. The Comptroller General of British Columbia maintains the accounts of British Columbia, a centralized record of the government's financial transactions, and obtains additional information as required from ministries, Crown corporations, agencies, school districts, universities, colleges, institutes and health organizations to meet accounting and reporting requirements.

The Auditor General of British Columbia provides an independent opinion on the financial statements prepared by the government. The duties of the Auditor General in that respect are contained in section 11 of the *Auditor General Act*.

Annually, the financial statements are tabled in the legislature as part of the Public Accounts, and are referred to the Select Standing Committee on Public Accounts of the Legislative Assembly. The Select Standing Committee on Public Accounts reports to the Legislative Assembly with the results of its examination and any recommendations it may have with respect to the financial statements and accompanying audit opinions.

Approved on behalf of the Government of the Province of British Columbia:

A handwritten signature in black ink, appearing to read 'M. de Jong', with a stylized, flowing script.

MICHAEL DE JONG

Chair, Treasury Board



INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of the Province of British Columbia

I have audited the accompanying summary financial statements of the Government of the Province of British Columbia (the Government), which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of operations, change in net liabilities and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Government's Responsibility for the Summary Financial Statements

Government is responsible for the preparation and fair presentation of these summary financial statements in accordance with the *Budget and Transparency Accountability Act* as set out in note 1(a) to the summary financial statements, and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor General's Responsibility

My responsibility is to express an opinion on these summary financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the summary financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the summary financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the summary financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the summary financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

Inappropriate deferral of revenues

Government's accounting treatment for funds received from other governments and for externally restricted funds received from non-government sources is to initially record them as deferred revenue (a liability) and then recognize revenue in the statement of operations either on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to recognize revenue on the same basis as the related assets are amortized.

In this respect, the summary financial statements are not in accordance with Canadian public sector accounting standards which require that (i) transfers from other governments be recorded as revenues, except when the transfer meets the definition of a liability for the recipient government, and (ii) externally restricted funds received from non-government sources be recorded as revenue in the period in which the funds are used for the purpose(s) specified.

Had government made an adjustment, when this was first brought to its attention, for those funds received that in my opinion do not meet the definition of a liability or which have already been used for the purpose(s) specified, liabilities as at March 31, 2016, would have been less by \$4,243 million, the accumulated surplus at the beginning of the year would have been greater by \$4,240 million and current year revenue would have been greater by \$3 million.

Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the summary financial statements present fairly, in all material respects, the financial position of the Government of the Province of British Columbia as at March 31, 2016, and the results of its operations, change in its net liabilities, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Report on Other Legal and Regulatory Requirements

I report that, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the summary financial statements are presented in compliance with the *Budget Transparency and Accountability Act* (BTAA), which requires generally accepted accounting principles for senior governments in Canada, supported by regulations of Treasury Board under the BTAA.

Victoria, British Columbia
July 4, 2016



Carol Bellringer, FCPA, FCA
Auditor General



OFFICE OF THE
Auditor General
of British Columbia

Summary Financial Statements

Consolidated Statement of Financial Position

as at March 31, 2016

	Note	In Millions	
		2016	2015
		\$	\$
Financial Assets			
Cash and cash equivalents.....		3,460	3,237
Temporary investments.....		433	439
Accounts receivable.....	3	3,761	3,489
Inventories for resale.....	4	77	70
Due from other governments.....	5	916	896
Due from self-supported Crown corporations and agencies.....	6	654	633
Equity in self-supported Crown corporations and agencies.....	7	7,499	8,271
Loans, advances and mortgages receivable.....	8	1,989	1,902
Other investments.....	9	2,254	2,131
Sinking fund investments.....	10	1,580	977
Loans for purchase of assets, recoverable from agencies.....	11	22,074	20,624
		<u>44,697</u>	<u>42,669</u>
Liabilities			
Accounts payable and accrued liabilities.....	12	5,774	5,369
Employee future benefits.....	13	2,069	1,921
Due to other governments.....	14	419	711
Due to Crown corporations, agencies and trust funds.....	15	63	50
Deferred revenue.....	16	9,709	9,765
Employee pension plans.....	17	246	261
Taxpayer-supported debt.....	18	44,127	42,693
Self-supported debt.....	19	21,925	20,465
		<u>84,332</u>	<u>81,235</u>
Net assets (liabilities).....	21	<u>(39,635)</u>	<u>(38,566)</u>
Non-financial Assets			
Tangible capital assets.....	22	40,282	39,028
Restricted assets.....	23	1,631	1,553
Prepaid program costs.....	24	891	881
Other assets.....	25	210	400
		<u>43,014</u>	<u>41,862</u>
Accumulated surplus (deficit).....	26	<u>3,379</u>	<u>3,296</u>
Measurement uncertainty.....	2		
Contingencies and contractual obligations.....	27		
Significant events.....	38		
Subsequent events.....	39		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Prepared in accordance with Canadian generally accepted accounting principles.


STUART NEWTON
Comptroller General

Summary Financial Statements

Consolidated Statement of Operations

for the Fiscal Year Ended March 31, 2016

	In Millions		2015
	2016		
	Estimates (Note 33) \$	Actual \$	Actual \$
Revenue			
Taxation (Note 28).....	23,126	24,326	23,056
Contributions from the federal government.....	7,646	7,647	7,279
Fees and licenses.....	5,634	5,836	5,425
Miscellaneous.....	3,161	3,298	2,860
Net earnings of self-supported Crown corporations and agencies (Note 7).....	2,904	2,702	3,371
Natural resources (Note 29).....	2,757	2,571	2,937
Investment income.....	1,137	1,226	1,203
	<u>46,365</u>	<u>47,606</u>	<u>46,131</u>
Expense (Note 30)			
Health	19,061	19,203	18,370
Education	12,190	12,212	11,827
Social services.....	4,009	4,106	3,847
Interest.....	2,648	2,786	2,498
Natural resources and economic development.....	1,867	2,562	2,191
Transportation	1,713	1,670	1,608
Other	1,640	1,264	1,288
Protection of persons and property.....	1,423	1,572	1,451
General government.....	1,280	1,501	1,359
	<u>45,831</u>	<u>46,876</u>	<u>44,439</u>
Surplus (deficit) for the year before unusual items.....	534	730	1,692
Forecast allowance.....	(250)		
Surplus (deficit) for the year.....	<u>284</u>	<u>730</u>	<u>1,692</u>
Accumulated surplus (deficit)—beginning of year as restated (Note 26).....		<u>3,073</u>	<u>1,381</u>
Accumulated surplus (deficit)—before other comprehensive income.....		<u>3,803</u>	<u>3,073</u>
Accumulated other comprehensive income from self-supported Crown corporations and agencies (see page 95)—beginning of year.....		223	481
Other comprehensive income from self-supported Crown corporations and agencies (see page 95).....		<u>(647)</u>	<u>(258)</u>
Accumulated other comprehensive income from self-supported Crown corporations and agencies (see page 95)—end of year.....		<u>(424)</u>	<u>223</u>
Accumulated surplus (deficit)—end of year.....		<u><u>3,379</u></u>	<u><u>3,296</u></u>

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements

Consolidated Statement of Change in Net Liabilities for the Fiscal Year Ended March 31, 2016

	In Millions		2015
	2016		
	Estimates	Actual	Actual
	\$	\$	\$
Surplus (deficit) for the year.....	284	730	1,692
Effect of change in tangible capital assets:			
Acquisition of tangible capital assets.....	(3,731)	(3,457)	(3,407)
(Gain) or loss on sale of tangible capital assets.....	(483)	(372)	(135)
Amortization of tangible capital assets.....	2,112	2,086	2,080
Disposals and valuation adjustments.....	480	489	212
	(1,622)	(1,254)	(1,250)
Effect of change in:			
Restricted assets.....	(54)	(78)	(60)
Prepaid program costs.....	87	(10)	(106)
Other assets.....	4	190	132
	37	102	(34)
Effect of self-supported Crown corporations' and agencies' other comprehensive income.....	30	(647)	(258)
(Increase) decrease in net liabilities.....	(1,271)	(1,069)	150
Net (liabilities)—beginning of year.....	(39,784)	(38,566)	(38,716)
Net (liabilities)—end of year (Note 21).....	(41,055)	(39,635)	(38,566)

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements

Consolidated Statement of Cash Flow

for the Fiscal Year Ended March 31, 2016

	In Millions			2015
	2016			
	Receipts	Disbursements	Net	Net
	\$	\$	\$	\$
Operating Transactions				
Surplus (deficit) for the year ¹			730	1,692
Non-cash items included in surplus (deficit):				
Amortization of tangible capital asset.....			2,086	2,080
Amortization of public debt deferred revenue and deferred charges ...			102	(361)
Concessionary loan adjustments (decrease).....			(11)	(12)
(Gain) or loss on sale of tangible capital assets.....			(372)	(135)
Valuation adjustment.....			231	204
Net earnings of self-supported Crown corporations and agencies.....			(2,702)	(3,371)
Temporary investments decrease (increase).....			6	(19)
Accounts receivable (increase).....			(462)	(210)
Due from other governments (increase).....			(20)	(106)
Due from self-supported Crown corporations and agencies (increase) decrease.....			(21)	215
Accounts payable and accrued liabilities increase.....			405	235
Employee future benefits increase.....			148	51
Due to other governments (decrease).....			(292)	(331)
Due to Crown corporations, agencies and funds increase.....			13	12
Employee pension plan (decrease) increase.....			(15)	47
Items applicable to future operations increase.....			65	100
Contributions from self-supported Crown corporations and agencies ...			2,858	2,651
Cash derived from operations.....			2,749	2,742
Capital Transactions				
Tangible capital assets dispositions (acquisitions).....	482	(3,457)	(2,975)	(3,196)
Cash (used for) capital.....	482	(3,457)	(2,975)	(3,196)
Investment Transactions				
Investment in self-supported Crown corporations and agencies.....		(31)	(31)	30
Loans, advances and mortgages receivable (issues).....	239	(340)	(101)	(98)
Other investments—net (increase) decrease.....		(132)	(132)	218
Restricted assets—net (increase).....		(78)	(78)	(60)
Sinking fund investments—net (increase)	32	(635)	(603)	(142)
Cash (used for) investments.....	271	(1,216)	(945)	(52)
Sub-total cash (requirements).....			(1,171)	(506)

Summary Financial Statements

Consolidated Statement of Cash Flow—Continued

for the Fiscal Year Ended March 31, 2016

	In Millions			2015
	Receipts	Disbursements	Net	Net
	\$	\$	\$	\$
Sub-total cash (requirements) carried forward from previous page.....			(1,171)	(506)
Financing Transactions²				
Public debt increases.....	31,268	(28,421)	2,847	2,758
(Used for) purchase of assets, recoverable from agencies.....	11,570	(13,023)	(1,453)	(1,397)
Cash derived from financing.....	42,838	(41,444)	1,394	1,361
Increase in cash and cash equivalents.....			223	855
Cash and cash equivalents—beginning of year.....			3,237	2,382
Cash and cash equivalents—end of year			3,460	3,237
Cash and cash equivalents are made up of:				
Cash.....			2,421	2,499
Cash equivalents.....			1,039	738
			3,460	3,237

¹Interest received during the year was \$1,207 million (2015: \$1,190 million). Interest paid during the year was \$2,763 million (2015: \$2,489 million). Interest received is made up of interest income from the Statement of Operations in the amount of \$1,226 million (2015: \$1,203 million) plus the change in accrued interest receivable in the amount of \$(19) million (2015: \$(13) million). Interest paid is made up of interest expense from the Statement of Operations in the amount of \$2,786 million (2015: \$2,498 million) plus the change in accrued interest payable in the amount of \$(23) million (2015: \$(9) million).

²Financing transaction receipts are from debt issues and disbursements are for debt repayments.

The accompanying notes and supplementary statements are an integral part of these financial statements.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016

1. Significant Accounting Policies

(a) BASIS OF ACCOUNTING

The government's Summary Financial Statements are prepared in accordance with the *Budget Transparency and Accountability Act* (BTAA), which requires generally accepted accounting principles (GAAP) for senior governments in Canada, supported by regulations of Treasury Board under the BTAA.

(b) REPORTING ENTITY

These financial statements include the accounts of organizations that meet the criteria of control (by the province) as established under Canadian Public Sector Accounting Standards. The reporting entity also includes government partnerships.

A list of organizations included in these consolidated financial statements may be found on pages 81 – 83. Trusts administered by government or government organizations are excluded from the reporting entity.

(c) PRINCIPLES OF CONSOLIDATION

Taxpayer-supported Crown corporations, agencies, and the school districts, universities, colleges, institutes, health organizations (SUCH) and the Consolidated Revenue Fund (CRF) are consolidated using the full consolidation method. The government's interests in government partnerships are recorded on a proportional consolidation basis. Self-supported Crown corporations, agencies, entities and government business partnerships are consolidated using the modified equity basis of consolidation.

Organizations are reviewed annually to determine whether they can be expected to meet the definition of self-supported over their normal course of operations. In determining whether organizations will be able to maintain their operations and meet their liabilities from revenues received from sources outside of the government reporting entity, the following factors are considered as they apply:

- i) The organization's history of maintaining its operations and meeting its liabilities;
- ii) Whether the organization would continue to maintain its operations and meet its liabilities without relying on sales to, or subsidies in cash or kind from, the government reporting entity;
- iii) Past, present and future economic conditions within which the organization operates; and
- iv) Whether the organization has realistic and specific plans that show how it expects to be able to maintain its operations and meet its liabilities in the future.

The status of self-supported organizations is not changed in response to financial results which are reasonably expected to be temporary in nature. Organizations are classified as self-supported on establishment and during a start up period if they are reasonably expected to meet the definition of self-supported in their normal course of operations.

The definitions of these consolidation methods can be found on page 141.

Adjustments are made for Crown corporations, agencies and entities whose fiscal year ends are different from the government's fiscal year end of March 31. These Crown corporations, agencies and entities consist of the British Columbia Assessment Authority (December 31), the Insurance Corporation of British Columbia (December 31), and all school districts (June 30).

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

1. Significant Accounting Policies—Continued

Statistics Canada's Financial Management System for Government Statistics provides the guidance for establishing segment disclosure and function reporting. The Consolidated Statement of Financial Position by Sector and the Consolidated Statement of Operations by Sector are found on pages 84 – 91. These statements include the operations of the CRF, taxpayer-supported Crown corporations and agencies, and SUCH sector organizations. Each taxpayer-supported Crown corporation, agency and SUCH sector organization is assigned to a sector based on its major activity. Sectors are identified using functions. The nature of each function is described in greater detail under Note 1(d) Classification by Sector.

(d) SPECIFIC ACCOUNTING POLICIES

Classification by Sector

The province uses the following sectors: health, education, social services, natural resources and economic development, protection of persons and property, transportation, general government, debt servicing and other.

The health sector includes the provincial health care system. It includes providing medical, hospital and preventive care, and other health-related services such as laboratories and diagnostic facilities.

The education sector includes education services. It includes elementary, secondary, and post-secondary schools. It also includes other education services such as programs to upgrade the skills of individuals and to provide apprenticeship training.

The social services sector includes outlays that the province made to help disadvantaged individuals and families overcome obstacles and circumstances which threaten their well-being. It includes counselling and rehabilitation services, transfer payments to individuals who are unable to lead a normal life due to a physical or mental disability, and services and goods provided by the province to the elderly.

The natural resources and economic development sector includes the promotion and development of industries, as well as the development and conservation of the natural resources on which these industries depend. It includes regulating the various industrial activities that are carried on in the province, as well as research related to resource conservation.

The protection of persons and property sector includes the protection of persons and property from negligence, abuse and crime. It includes policing, operating and maintaining courts of law and correctional facilities. It includes services related to new immigrants. It also includes negotiations to resolve land, resources, governance and jurisdictional issues with First Nations.

The transportation sector includes the operation and maintenance of transportation systems. This includes highway infrastructure, other road systems and public transit.

The general government sector is composed of three sub-categories. These are general administration, executive and legislature, and other general government services. General administration includes central accounting, budgeting, tax administration and collection, and other centralized administrative services. Executive and legislature includes the political, law enactment and constitutional activities of the province.

The debt servicing sector represents the financial impacts of activities related to management of public debt.

The other sector consists of activities, such as housing and culture, which cannot be allocated to any of the specifically described sector classifications.

Revenue

All revenue is recorded on an accrual basis. For corporate income tax, the cash received from the federal government is used as the basis for estimating the tax revenue. Annual tax revenues also include adjustments between the estimated revenues of previous years and actual amounts, as well as revenues from reassessments relating to prior years. Revenues do not include estimates of unreported taxes, or the impact of future reassessments that cannot be reliably determined.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

1. Significant Accounting Policies—Continued

Personal income tax revenue is accrued in the year earned based on estimates of household and taxable income. The revenue reported in the fiscal year is based on a proration of the calendar year estimates.

Direct taxes, such as sales, fuel, carbon and tobacco, are recorded during the period in which the taxable event occurs and when authorized by legislation. Property tax revenues are recorded based on a pro-ratation of actual property tax billings for each of the calendar years that comprise the fiscal year.

Tax concessions are accrued on the same basis as the associated tax revenues and reduce gross taxation revenue, but are not considered valuation allowances.

Royalty revenue is reported net of allowable credits integral to determining the amount of royalty. Amounts are reported as revenue when received or receivable.

Government transfers are recognized as revenues in the period during which the transfer is authorized and any eligibility criteria are met. Government transfers are deferred if they are restricted through stipulations for specific programs such as health transfers.

Expense

The cost of all goods consumed and services received during the year is expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issue costs.

Pension expense is calculated as the cost of pension benefits earned by employees during the year, interest on the pension benefits liability, net of pension plan assets, and amortization of the government's share of any experience gains or losses, less contributions made by members. The estimated total cost of government's share of plan amendments related to past service is expensed in the year the plan is amended.

Government transfers include grants, entitlements and transfers under agreements, as defined in the definitions on page 142. Government transfers are recognized as expenses in the period in which the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria have been met and a reasonable estimate of the amount can be made.

Assets

Assets are recorded to the extent they represent cash and claims upon outside parties, items held for resale to outside parties, prepaid expenses, deferred charges or tangible capital assets acquired as a result of events and transactions prior to year end.

Financial Assets

Cash and cash equivalents include cash on hand, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash. These are subject to an insignificant risk of changes in value. These short-term investments generally have a maturity of three months or less and are held for the purpose of meeting short-term cash commitments rather than for investing.

Temporary investments and Warehouse Program investments include short-term investments recorded at the lower of cost or market value. The fair values of short-term investments approximate their carrying values because of the short-term maturity of these instruments. Warehouse Program investments are short-term investments related to specific borrowings in advance of requirements under the Warehouse Borrowing Program.

Inventories for resale are expected to be sold within one year and include property that has been purchased, or for which development costs have been incurred, and that is held for ultimate resale or lease to outside parties. Inventories for resale are recorded at the lower of cost or net realizable value.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

1. Significant Accounting Policies—Continued

Equity in self-supported Crown corporations and agencies represents the province's investment (including long-term advances) in those self-supported Crown corporations and agencies at cost, increases/decreases in the investees' net assets, and other comprehensive income.

Loans for purchase of assets recoverable from agencies are recorded at maturity value, less unamortized premium or discount, deferred foreign exchange gains or losses and sinking fund balances. Premium/discount is amortized on a constant yield basis.

Loans and advances are recorded at cost less adjustment for any prolonged impairment in value. Mortgages receivable are recorded at the principal amount less valuation allowance, are secured by real estate and are repayable over periods ranging up to thirty-five years. Concessionary loans and mortgages are recorded at net present value at issue, and related present value discounts are expensed. Valuation allowances are made when collectibility is considered doubtful. Interest is accrued on loans receivable only when collection is certain. Otherwise, it is recognized on the cash basis.

Other investments are recorded at the cost of acquisition, which may be adjusted by attributed income. Valuation adjustments are made when the value of investments is impaired.

Sinking fund investments are cash and marketable securities held specifically for the purpose of repaying outstanding debt at maturity. Sinking fund investments are recorded at the cost of acquisition.

Tangible Capital Assets

Tangible capital assets are recorded at historical cost, plus asset retirement obligations, less accumulated amortization. The recorded cost, less the residual value, is generally amortized over the estimated useful lives of the assets on a straight-line basis.

All significant tangible capital assets of government organizations and operations have been capitalized. Intangible assets and items inherited by right of the Crown, such as forest, water and mineral resources, are not recognized in these financial statements. Crown land is capitalized at a nominal value of one dollar.

The value of collections (e.g. artifacts, specimens and documents) has been excluded from the Statement of Financial Position. When collections are purchased, these items are expensed.

Liabilities

All liabilities are recorded to the extent they represent claims payable to outside parties as a result of events and transactions prior to year end. This includes probable losses on loan guarantees issued by the province, contingent liabilities (when it is likely a liability exists and the amount of the liability can be reasonably determined on an individual or portfolio basis) and unfunded pension liabilities. Liabilities are not recorded for tax concessions or royalty credits which are integral in determining the amount of revenue.

Guaranteed debt includes guarantees by the Minister of Finance, made through specific agreements or legislation, to repay promissory notes, bank loans, lines of credit, mortgages and other securities. Loss provisions on guaranteed debt are recorded when it is likely that a loss will occur. The amount of the loss provision represents the best estimate of future payments less recoveries. The loss provision is recorded as a liability and an expense in the year determined and is adjusted as necessary to ensure it equals the expected payout of the guarantee.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

1. Significant Accounting Policies—Continued

Employee Pension Plans

The province accounts for employee pension plans by recognizing a liability and an expense in the reporting period in which the employee has provided service. The amount is calculated using the accrued benefit actuarial cost method. Where plans are in a net asset position and Joint Trusteeship Agreements restrict access to the assets, the province records the value of plan net assets as nil. The province records a liability for its share where plans are in a net obligation position. Changes in net liabilities/assets, which arise as a result of actuarial gains and losses, are amortized on a straight-line basis over the average remaining service period of employees active at the date of the adjustments. Past service costs from plan amendments are recognized in full in the year of the amendment.

Unfunded pension liabilities of the Members of the Legislative Assembly Superannuation Account represent the terminal funding that would be required from the province for the difference between the present value of the obligations for future benefit entitlements and the amount of funds available in the account.

Public Debt

Public debt represents the direct debt obligations of the Province of British Columbia, including borrowings incurred for government operating purposes, the acquisition of capital assets, re-lending to authorized government bodies and borrowings in advance of future requirements under the Warehouse Borrowing Program. Public debt consists of short-term promissory notes, notes, bonds and debentures, bank loans, capital leases and mortgages payable. These obligations are recorded at principal less unamortized premium or discount and unrealized foreign exchange gains or losses.

Public debt is reported under two categories:

- (i) Taxpayer-supported debt—includes direct debt used for government operating and capital purposes, the debt of those Crown corporations, agencies and SUCH sector entities who require an operating or debt servicing subsidy from the provincial government, and the debt of an entity that is fully consolidated within these financial statements.
- (ii) Self-supported debt—includes the portion of debt of self-supported organizations and entities that has been borrowed through the government's fiscal agency loan program. It does not include all debt of self-supported organizations as these entities are consolidated on the modified equity basis. Self-supported organizations fully fund their operations and debt from revenue generated through the sale of goods and/or services at commercial rates to buyers that are outside the government reporting entity. Self-supported debt includes debt of the Warehouse Borrowing Program.

Debt premium/discount is amortized on a constant yield basis. Unamortized premium/discount on bonds called and refinanced is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at year end. Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts that specify the rate of exchange. Adjustments to revenue or expense transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long-term, fixed-term monetary assets and liabilities are reported as a component of sinking funds, public debt and loans for purchase of assets recoverable from agencies, and amortized over the remaining terms of the related items on a straight-line basis. Non-monetary assets and liabilities are translated at historical rates of exchange.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

1. Significant Accounting Policies—Continued

Derivative Financial Instruments

The province is a party to financial instruments with off-balance sheet risk due to fluctuations in foreign currency exchange rates, interest rate fluctuations and counterparty default on financial obligations. The province does not use derivative financial instruments for speculative purposes. Off-balance sheet position data is given in the form of nominal principal amounts outstanding. Amounts earned and expenses incurred under swaps are recognized and offset against the related interest expense. Gains and losses on terminated derivative contracts are deferred and amortized over the remaining term of the contract or the term of the related debt.

Other Comprehensive Income

Any recognition of other comprehensive income for self-supported Crown corporations has been reflected in the equity in self-supported Crown corporations and agencies, and in the accumulated surplus (deficit).

Asset Retirement Obligations

The province recognizes asset retirement obligations where a reasonable estimate of the fair value of the obligation and the future settlement date of the retirement of the asset can be determined. The associated retirement costs are capitalized as part of the assets' carrying value and amortized over the assets' useful lives. Legal liabilities may exist for the removal and disposal of asbestos within buildings that will undergo major renovations or demolition. The fair value of the liability for asbestos removal or disposal will be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made.

2. Measurement Uncertainty

The preparation of financial statements requires the province to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses during the reporting period. Uncertainty in the determination of these amounts is known as measurement uncertainty.

Some of the more significant estimates used in these financial statements affect the accrual of tax revenues, Canada Health Transfer and Canada Social Transfer entitlements, obligations for pension obligations and other employee future benefits, accruals for environmental obligations, future payments related to contingent liabilities, and valuation allowances for loans, investment and advances. Actual results could differ from estimates. For many common financial statement items, such as accounts payable and allowances for doubtful accounts, measurement uncertainty is inherent but inestimable.

A provision for environmental clean-up is included in accounts payable and accrued liabilities. The provision is subject to a high degree of measurement uncertainty because the existence and extent of contamination, the responsibility for clean-up, and the timing and cost of remediation cannot be reliably estimated in all circumstances. The degree of measurement uncertainty resulting from the estimation of the provision cannot be reasonably determined.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

2. Measurement Uncertainty—Continued

The amount of corporate income tax attributable to the year can change as a result of reassessments in subsequent years. The variability of the final amounts attributable to the year cannot be reasonably determined.

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. Measurement uncertainty exists in these financial statements, as identified in the table below, for items with a variability of over \$10 million:

Program Area	In Millions				
	Actual ¹	Measurement Uncertainty		Range	
	Amount Recorded	Minimum	Maximum	Minimum	Maximum
	\$	\$	\$	\$	\$
Liabilities					
<i>Accounts Payable and Accrued Liabilities</i>					
Litigation and Arbitration	95	85	105	(10)	10
Crime Victim Assistance Program	177	167	187	(10)	10
Silviculture Liability.....	114	102	125	(12)	11
Employee Leave Entitlements.....	306	296	315	(10)	9
Variability arises from uncertainty of the outcomes or the use of estimates.					
Revenues					
<i>Taxation</i>					
Personal Income Tax.....	8,380	7,980	8,780	(400)	400
<i>Contributions from the Federal Government</i>					
Canada Health Transfer payments ²	4,446	4,412	4,480	(34)	34
Canada Social Transfer payments ²	1,693	1,680	1,706	(13)	13
Expenses (Note 30)					
<i>Government Transfers</i>					
Tax Transfers	1,140	1,090	1,190	(50)	50

Variability is based on the potential differences between the estimates for the economic factors used in calculating the accruals and actual economic results.

¹Actual amount recorded for each program area may not represent the entire amount in the financial statement line item.

²Canada Health Transfer and Canada Social Transfer payments are transfers from the federal government based on the provincial share of national population figures.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

3. Accounts Receivable

	In Millions	
	2016	2015
	\$	\$
Accounts receivable.....	2,575	2,286
Taxes receivable.....	1,648	1,641
Accrued interest.....	325	306
	4,548	4,233
Provision for doubtful accounts.....	(787)	(744)
	<u>3,761</u>	<u>3,489</u>

4. Inventories for Resale

	In Millions	
	2016	2015
	\$	\$
Properties.....	32	28
Miscellaneous.....	45	42
	<u>77</u>	<u>70</u>

Inventories for resale are charged to the statement of operations when sold. During the year, the total cost of sales was \$163 million (2015: \$163 million) including the effect of write-downs of \$9 million (2015: \$1 million). Write-downs occurred due to the sale of carbon offsets, obsolete materials no longer used, damaged goods, and reductions in the market value of goods.

5. Due from Other Governments

	In Millions	
	2016	2015
	\$	\$
Government of Canada:		
Current.....	834	828
Provincial governments:		
Current.....	29	23
Local governments: ¹		
Current.....	36	31
Long-term.....	17	14
	<u>916</u>	<u>896</u>

¹Local governments are municipal units established by the provincial government which include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

6. Due from Self-supported Crown Corporations and Agencies

	In Millions	
	2016	2015
	\$	\$
British Columbia Hydro and Power Authority.....	331	271
Insurance Corporation of British Columbia.....	138	139
British Columbia Lottery Corporation.....	130	144
UBC Properties Investments Ltd.....	36	71
British Columbia Liquor Distribution Branch.....	12	
Columbia Power Corporation.....	2	2
Great Northern Way Campus Trust.....	2	4
Vancouver Island Technology Park Trust.....	2	2
Heritage Realty Properties Ltd.....	1	
	<u>654</u>	<u>633</u>

See Statement of Financial Position for Self-supported Crown Corporations and Agencies on pages 92 – 93 for details.

7. Equity in Self-supported Crown Corporations and Agencies

	In Millions				2015
	2016				
		Unremitted	Other		
	Investments	Earnings	Comprehensive	Total	Total
	\$	\$	Income	\$	\$
British Columbia Hydro and Power Authority.....	20	4,436	43	4,499	4,170
Insurance Corporation of British Columbia.....		3,072	(227)	2,845	3,947
Columbia Power Corporation.....	26	205		231	191
British Columbia Lottery Corporation.....		(17)	(57)	(74)	(75)
Transportation Investment Corporation.....	150	(394)	(173)	(417)	(358)
	<u>196</u>	<u>7,302</u>	<u>(414)</u>	<u>7,084</u>	<u>7,875</u>
Self-Supported Subsidiaries¹					
Columbia Basin Trust joint ventures ²	197	7		204	197
British Columbia Railway Company ³	107	38	(8)	137	135
Great Northern Way Campus Trust ⁴	65	(2)	(2)	61	57
SFU Community Trust.....		6		6	8
Heritage Realty Properties Ltd ⁵		2		2	2
Vancouver Island Technology Park Trust ⁵	1	1		2	2
UBC Properties Investments Ltd.....	27	(25)		2	(4)
Miscellaneous.....	1			1	(1)
	<u>398</u>	<u>27</u>	<u>(10)</u>	<u>415</u>	<u>396</u>
	<u>594</u>	<u>7,329</u>	<u>(424)</u>	<u>7,499</u>	<u>8,271</u>

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

7. Equity in Self-supported Crown Corporations and Agencies—Continued

	In Millions				2015
	2016				
	Investments	Unremitted	Other	Total	Total
	\$	Earnings	Comprehensive	\$	\$
		\$	Income		
			\$		

¹Self-supported subsidiaries are non-core government business enterprises that are consolidated under the modified equity method by taxpayer-supported organizations.

²Brilliant Power Corporation, Brilliant Expansion Power Corporation, Arrow Lakes Power Corporation and Waneta Expansion Power Corporation are jointly controlled with Columbia Power Corporation. Columbia Power Corporation's equity investment is included as an integral component of Columbia Power Corporation.

³A subsidiary of BC Transportation Financing Authority.

⁴Great Northern Way Campus Trust is owned 25% each by Emily Carr University of Art & Design, British Columbia Institute of Technology, The University of British Columbia, and Simon Fraser University.

⁵Subsidiaries of the University of Victoria.

See Statement of Financial Position for Self-supported Crown Corporations and Agencies and Summary of Results of Operations and Statement of Equity for Self-supported Crown Corporations and Agencies on pages 92 – 95 for details.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

8. Loans, Advances and Mortgages Receivable

	In Millions	
	2016	2015
	\$	\$
Loans and Advances		
BC student loans.....	1,247	1,231
Land tax deferment loans.....	739	671
Construction loans to social housing projects.....	204	176
Accountable advances.....	2	3
Miscellaneous.....	93	99
	2,285	2,180
Provision for doubtful accounts.....	(329)	(329)
	1,956	1,851
Mortgages Receivable		
Reconstruction Program.....	35	40
Miscellaneous.....		13
	35	53
Provision for doubtful accounts.....	(2)	(2)
	33	51
	<u>1,989</u>	<u>1,902</u>

The BC Student Loan Program provides loans to borrowers for post-secondary education. Borrowers are required to repay these loans to the province with interest set at a variable rate of prime plus 2.5%; however, borrowers can choose a fixed rate of prime plus 5%. Amortization of the loans is usually set at 114 months, but borrowers can extend that amortization to a maximum of 174 months. Defaulted loans are due on demand at the same rate of interest the borrower previously chose. The Ministry of Finance also administers defaulted student loans issued by financial institutions under a guaranteed or a risk sharing agreement with the province.

The Land Tax Deferment Program allows eligible owners to defer payment of all, or a portion of, annual property taxes due on principal residences. Eligible individuals are either 55 years of age or older, a surviving spouse, a person with a disability, or an owner who is financially supporting, at the time of application, a dependent child. The program for individuals 55 years of age or older, a surviving spouse, or a person with a disability, requires 25% equity in the home. The program for families with dependent children requires 15% equity in the home. Simple interest is charged on the deferred taxes at a rate set by the minister of finance. This rate will not exceed the prime lending rate of the principal banker to the government and will vary depending on the eligibility criteria used. The deferred taxes, plus any administration fees or outstanding interest, must be repaid before the residence can be legally transferred to a new owner, other than directly to a surviving spouse. Land Tax Deferment Loans are secured by registered charge on title.

Construction loans are provided by British Columbia Housing Management Commission (BCHMC), a taxpayer-supported Crown corporation and an approved lender under the *National Housing Act*. BCHMC provides construction loans for societies that are building approved projects under social housing programs. Interest is payable at the province's weighted average borrowing rate for short-term funds, plus administration costs. Loans are repaid at substantial completion of each project from financing arranged with private lenders.

Accountable advances represent funds issued for program costs that have not yet been expended in accordance with the applicable agreements.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

8. Loans, Advances and Mortgages Receivable—Continued

The Reconstruction Loan Program was established in 1998 under the *Homeowner Protection Act* to provide financial assistance to British Columbians who own homes damaged by premature building envelope failure and have limited ability to secure financing to pay for necessary remediation work. The financial assistance includes interest free loans as well as guarantees and interest subsidies of those loans provided by lenders outside of the government reporting entity. No new applicants under the program were being accepted after July 31, 2009. Financial assistance is secured by registered mortgages.

Miscellaneous mortgages receivable have terms up to 3 years with weighted average interest rates of up to 1.09%.

9. Other Investments

	In Millions	
	2016	2015
	\$	\$
Pooled investment portfolios.....	839	718
Equity investments.....	344	280
Provincial government bonds.....	332	382
Municipal, corporate and other bonds.....	235	187
Commercial loans and investments.....	118	117
British Columbia Ferry Services Inc.....	75	75
Government of Canada bonds.....	17	18
Miscellaneous.....	294	354
	<u>2,254</u>	<u>2,131</u>

Pooled investment portfolios consist mainly of units in various funds of the British Columbia Investment Management Corporation. These funds' investments consist primarily of debt and equity holdings of privately held companies. Pooled investment portfolios have a market value of \$1,005 million (2015: \$1,013 million).

Equity investments have a market value of \$444 million (2015: \$462 million). They include investments in Canadian, U.S. and international equity markets.

Provincial bonds of various provinces have a market value of \$342 million (2015: \$399 million), with yields ranging from 0.00% to 11.00%. Maturity dates range from June 15, 2016 to June 18, 2029.

Municipal, corporate and other bonds have a market value of \$246 million (2015: \$215 million) with yields ranging from 0.00% to 9.90%. Maturity dates range from April 7, 2016 to June 30, 2108.

Commercial loans and investments are recorded at the lower of cost of acquisition adjusted by attributed income and market value. Commercial loans and investments include Columbia Basin Trust's \$118 million (2015: \$117 million) investment in power developments and other investments.

As part of a secured debenture amendment and preferred share surrender agreement dated May 23, 2003, the province exchanged its interest in British Columbia Ferry Corporation for 75,477 preferred shares in British Columbia Ferry Services Inc. These non-voting preferred shares are valued at \$1,000 per share and entitle the province to a fixed cumulative dividend at a rate of 8% of the issue price.

Government of Canada bonds have a market value of \$17 million (2015: \$19 million), with yields ranging from 0.78% to 8.00%. Maturity dates range from June 1, 2017 to December 1, 2048.

Miscellaneous investments consist of other pooled funds as well as various forms of income securities, notes and treasury bills. The market value of miscellaneous investments is \$303 million (2015: \$364 million).

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

10. Sinking Fund Investments

	In Millions	
	2016	2015
	\$	\$
Sinking fund investments related to taxpayer-supported debt.....	1,408	822
Sinking fund investments related to self-supported debt.....	172	155
	<u>1,580</u>	<u>977</u>

	In Millions	
	2016	2015
	\$	\$
Provincial government bonds.....	362	335
Pooled investment portfolios.....	10	24
Local government bonds.....	5	5
Miscellaneous.....	1,203	613
	<u>1,580</u>	<u>977</u>

Provincial bonds of various provinces have a market value of \$447 million (2015: \$426 million), with yields ranging from 0.65% to 3.77%. Maturity dates range from August 15, 2016 to December 1, 2043.

Pooled investment portfolios have a market value of \$10 million (2015: \$24 million). These pooled investment portfolios consist of units in the British Columbia Investment Management Corporation's bond funds, which mainly consist of various governments' bonds and short-term unitized funds that hold money market instruments.

Local government bonds have a market value of \$6 million (2015: \$7 million), with yields of 1.99%. Maturity date is November 30, 2023. Local government bonds mainly consist of debt issued by the BC Municipal Financing Authority.

Miscellaneous investments have a market value of \$1,203 million (2015: \$613 million). These consist of Renminbi denominated bond proceeds held in term deposits.

11. Loans for Purchase of Assets, Recoverable from Agencies

	In Millions	
	2016	2015
	\$	\$
British Columbia Hydro and Power Authority.....	18,007	16,629
Transportation Investment Corporation.....	3,614	3,547
Columbia Power Corporation.....	296	300
British Columbia Lottery Corporation.....	150	140
Improvement districts.....	7	8
	<u>22,074</u>	<u>20,624</u>

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

12. Accounts Payable and Accrued Liabilities

	In Millions	
	2016	2015
	\$	\$
Accounts payable.....	2,841	2,603
Other accrued estimated liabilities ¹	2,250	2,106
Accrued interest on debt.....	683	660
	<u>5,774</u>	<u>5,369</u>

¹Includes pending litigation, provision for guaranteed debt payout and other miscellaneous accrued claims.

13. Employee Future Benefits

	In Millions	
	2016	2015
	\$	\$
Vacation, compensatory time off, sick bank.....	1,039	1,015
Retirement allowance.....	743	724
Long-term disability.....	141	46
Post-retirement benefits.....	75	69
Worker compensation benefits.....	71	67
	<u>2,069</u>	<u>1,921</u>

There are a variety of employee benefit plans across the reporting entity with different terms that provide for post-employment benefits, compensated absences and termination benefits. The cost of benefits is recognized in the periods the employee provides service. A liability is recognized for benefits that do not vest or accumulate when an event that obligates the province to pay benefits occurs.

The retirement allowance includes an actuarial valuation in the amount of \$145 million. During the year, unamortized actuarial losses (gains) were \$4 million (2015: \$4 million); the amount of benefits paid was \$17 million (2015: \$17 million); and the date of the most recent actuarial valuation performed for accounting purposes was September 30, 2015.

Worker compensation benefits represent the actual premiums accruing to WorkSafeBC for the year. Amounts recorded in the financial statements relating to long-term disability benefits represent the actual amount of benefits paid during the year plus the actuarial estimate for future payments, based on claims ongoing at year-end.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

14. Due to Other Governments

	In Millions	
	2016	2015
	\$	\$
Government of Canada:		
Current.....	330	654
Long-term.....	1	2
Provincial governments:		
Current.....	25	31
Local governments: ¹		
Current.....	63	24
	<u>419</u>	<u>711</u>

¹Local governments are municipal units established by the provincial government that include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

15. Due to Crown Corporations, Agencies and Trust Funds

	In Millions	
	2016	2015
	\$	\$
British Columbia Hydro and Power Authority.....		13
British Columbia Liquor Distribution Branch.....		4
Trust funds.....	63	33
	<u>63</u>	<u>50</u>

16. Deferred Revenue

	In Millions	
	2016	2015
	\$	\$
Deferred contributions.....	3,362	3,022
Federal and municipal infrastructure project revenues.....	1,587	1,460
Petroleum, natural gas and minerals, leases and fees.....	1,406	2,080
Federal contributions.....	1,029	1,105
Unearned lease revenue.....	792	782
Tuition.....	285	238
Motor vehicle licences and permits.....	270	270
Derivative debt instruments.....	138	78
Water rentals and recording fees.....	121	107
Medical Services Plan premiums.....	118	113
Forest Stand Management Fund.....	12	11
Miscellaneous.....	589	499
	<u>9,709</u>	<u>9,765</u>

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

17. Employee Pension Plans

	In Millions	
	2016	2015
	\$	\$
Teachers' Pension Plan.....	244	259
Members of the Legislative Assembly Superannuation Account.....	2	2
	<u>246</u>	<u>261</u>

(a) Members of the Legislative Assembly Superannuation Account

The Legislative Assembly Superannuation Account (the "Account") is administered by the British Columbia Pension Corporation (the "Pension Corporation"). As members of the Legislative Assembly retire, the present value of the amount required to provide a legislative member's future pension benefit is transferred from the Account to the Public Service Pension Plan from which monthly pensions are paid. The province contributes to this plan and provides additional funding when the present value of the funding exceeds the accumulated assets in the Account available to fund those members' benefit entitlements in the plan. This plan provides basic pension benefits based on length of service, highest four-year average earnings and plan members' age at retirement. Benefits, such as group health benefits and inflation protection for the basic pension, are not guaranteed and are contingent upon available funding.

(b) Other Pension Plans

Other pension plans represent defined benefit plans outside of the College, Public Service, Municipal, and Teachers' Pension plans which are funded by entities within the government reporting entity. They include the Retirement Plan for Non-Teaching Employees of the Board of School Trustees of School District No. 43 (Coquitlam), the University of Victoria's pension plan for employees other than faculty and professional staff, Simon Fraser University's Academic Pension Plan and Administrative/Union Pension Plan, and Canadian Blood Services' pension plan for regular employees. Only 14.67% of the pension fund assets and accrued benefit obligation are included for the Canadian Blood Services pension plan, reflecting the province's interest in the plan. The accrued benefit obligation for these other pension plans is \$706 million (2015: \$674 million), with estimated pension fund assets of \$784 million (2015: \$735 million), and an unamortized actuarial gain (loss) of \$83 million (2015: \$84 million). The accrued net (liability) asset is \$(5) million (2015: \$(23) million) and is included in post retirement benefits in Note 13.

There are additional employee pension plans in Crown corporations and agencies consolidated on the modified equity basis. They include British Columbia Hydro and Power Authority, British Columbia Lottery Corporation, British Columbia Railway Company, and the Insurance Corporation of British Columbia. Net assets or net liabilities of the pension funds are included in the equity balance of the particular Crown corporation or agency in Note 7. Total accrued benefit obligations equal \$6,753 million (2015: \$6,574 million), with estimated pension fund assets of \$5,313 million (2015: \$5,339 million). The accrued net (liability) asset is \$(1,440) million (2015: \$(1,235) million).

(c) Joint Trusteed Plans

The province contributes to four pension plans for substantially all of its employees. The four pension plans are the College Pension Plan, the Public Service Pension Plan, the Municipal Pension Plan, and the Teachers' Pension Plan. The plans provide basic pensions based on length of service, highest five-year average earnings and plan members' age at retirement. Benefits, such as group health benefits and inflation protection for the basic pension, are not guaranteed and are contingent upon available funding. No unfunded liability exists for the future indexing of pensions as the obligation is limited to the amount of available assets in separate inflation accounts.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

17. Employee Pension Plans—Continued

The College, Public Service, Municipal and Teachers' pension plans are joint trustee plans. In joint trustee plans, control of the plans and their assets is assumed by individual pension boards made up of plan employer and plan member appointed trustees. The Province participates as a plan employer in each plan. Provisions of these plans stipulate that the province has no formal claim to any pension plan surplus or asset. The boards are fully responsible for the management of the plans, including investment of the assets and administration of the plans. The Pension Corporation provides benefit administrative services as an agent of the boards of trustees. The British Columbia Investment Management Corporation provides investment management services as an agent of the boards of trustees.

In the event an unfunded liability is determined by an actuarial valuation (performed at least every three years), the pension boards are required to address it through contribution adjustments shared equally by plan members and employers. It is expected, therefore, that any unfunded liabilities in the future will be short-term in nature.

The reported net assets or net obligations of the pension plans are administered under joint trust arrangements. The province has no claim on accrued asset amounts. The province is responsible for 50% of a reported net obligation. Settlement of the obligation will occur in future periods as contributions maintain a fully funded plan status over time. Also, only 70% of the pension fund assets, accrued benefit obligation, and preliminary current year employer contributions are included for the Municipal Pension Plan, reflecting the province's interest in the plan.

The accrued benefit obligations and pension assets shown for 2015/16 are based on extrapolations of the most recent actuarial valuations as shown below. Fund assets are based on market value at the date of actuarial valuation and extrapolated using actuarial growth assumptions as shown in the following table. The expected long-term inflation rates used in these assumptions are nil, since the future indexing of pensions is limited to the amount of available assets in the inflation adjustment account.

Key actuarial assumptions and dates:

	Public Service Pension Plan	Municipal Pension Plan	Teachers' Pension Plan	College Pension Plan
Date of actuarial valuation.....	Mar 31/14	Dec 31/12	Dec 31/14	Aug 31/12
Date of audited financial statements.....	Mar 31/15	Dec 31/14	Dec 31/14	Aug 31/15
Expected long-term rate of return.....	6.5%	6.5%	6.5%	6.5%

The audited financial statements of each pension plan listed, except the Account, may be found in the annual reports at www.pensionsbc.ca outside these audited statements.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

17. Employee Pension Plans—Continued

(d) Accrued net obligation (asset) table

The estimated financial position as at March 31, 2016, for the basic pension in each plan is as follows:

	In Millions				
	Public Service Pension Plan	Municipal Pension Plan	Teachers' Pension Plan	College Pension Plan	Total
	\$	\$	\$	\$	\$
Accrued benefit obligation.....	17,411	23,013	18,257	3,281	61,962
Pension fund assets.....	18,378	22,367	17,826	3,243	61,814
	(967)	646	431	38	148
Unamortized actuarial gain (loss)	(168)	(1,388)	57	(103)	(1,602)
Accrued net obligation (asset).....	(1,135)	(742)	488	(65)	(1,454)
Province's accrued net obligation – 50%.....			244		244

The province is obligated under labour contracts to provide retirement benefits for its employees through contributions to these pension plans. Contribution rates are adjusted to reflect the results of the triennial actuarial valuation of each plan. When there is an accrued net obligation, the contribution rates will be increased to address the shortfall over the employees' estimated remaining years of service. The province contributes approximately 50% of the total contributions for these plans; therefore, the province's accrued net obligation is 50%. An accrued net obligation will not result in a payment to the plan, but will be addressed through increased contributions over time.

(e) The preliminary overall fund rates of return (loss) reported to the pension boards as at December 31, 2015 for each plan are: College Pension Plan 8.4% (2015: 11.3%), Public Service Pension Plan 9.3% (2015: 11.7%), Municipal Pension Plan 8.7% (2015: 11.3%), and Teachers' Pension Plan 9.3% (2015: 11.6%).

(f) The province's share includes contributions for all participants in the government reporting entity. Total contributions this year for each plan are: College Pension Plan \$74 million (2015: \$72 million), the Public Service Pension Plan \$337 million (2015: \$329 million), the Municipal Pension Plan \$695 million (2015: \$659 million), and the Teachers' Pension Plan \$418 million (2015: \$361 million).

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

18. Taxpayer-supported Debt¹

		In Millions			2016	2015
	Year of Maturity	Canadian Dollar	US Dollar ²	Other Currencies ²	Canadian Dollar Total	Canadian Dollar Total
		\$	\$	\$	\$	\$
Short-term promissory notes.....	2016				0	3,692
	2017	999	2,176	603	3,778	0
Notes, bonds and debentures ³	2016				0	1,746
	2017	810	1,442		2,252	2,168
	2018	694	1,240	359	2,293	2,291
	2019	2,223		900	3,123	2,519
	2020	2,167			2,167	2,164
	2021	1,919			1,919	1,933
	2022–2026	9,542	2,223	1,062	12,827	11,745
	2027–2031	3,460		96	3,556	3,539
	2032–2036	2,348			2,348	2,283
	2037–2041	4,133		169	4,302	4,032
	2042–2046	3,598			3,598	3,828
	2047–2051	1,447			1,447	147
	2052–2056	130			130	130
	2057–2061				0	0
	2062–2063	181			181	181
Capital leases.....	2016–2048	194			194	196
Total debt issued at face value.....		33,845	7,081	3,189	44,115	42,594
Unamortized premium.....					12	99
Total taxpayer-supported debt.....					44,127	42,693
The effective interest rates (weighted average) as at March 31 on the above debt are:						
2016.....					3.60%	
2015.....						3.76%

¹The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 20.

²Foreign currency denominated debt as at March 31, 2016 includes US\$6,621 million which was fully hedged to CAD\$7,081 million; 700 million Swiss Francs was fully hedged into CAD\$753 million; 351 million Euro was fully hedged to CAD\$519 million, \$700 million AUD was fully hedged to CAD\$712 million and CNY 6 billion was unhedged (CAD\$1,205 million).

³Notes, bonds and debentures includes \$2,877 million (2015: \$2,586 million) in public private partnership obligations and \$39 million (2015: \$40 million) in other loans.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

18. Taxpayer-supported Debt—Continued

Notes, bonds and debentures

Redeemable by the province

Balances include debentures issued to the Canada Pension Plan totalling \$3,271 million (2015: \$3,271 million) at a weighted average interest rate of 5.13% (2015: 5.14%). These debentures mature at various dates from April 11, 2016 to December 10, 2040 with interest rates varying between 2.24% and 6.75%. These debentures are redeemable in whole or in part before maturity, on thirty days prior notice, at the option of the province. During the year, \$39 million (2015: \$50 million) Canada Pension Plan debentures were issued.

Mortgages

Balances include mortgages totalling \$186 million (2015: \$194 million) secured by land and buildings. The carrying value is \$176 million (2015: \$196 million).

Aggregate payments to meet sinking fund instalments and retirement provisions

Aggregate payments for the next five fiscal years and thereafter to meet sinking fund instalments and retirement provisions on notes, bonds and debentures are:

	In Millions Canadian Dollar
	\$
2017.....	2,660
2018.....	2,325
2019.....	2,550
2020.....	2,192
2021.....	1,915
2022–2063.....	28,357
Total of stated minimum payments.....	39,999

Capital Lease Obligations

Capital lease obligations consist of the present value of the minimum lease payments related to capital leased assets. The province has lease agreements with terms between one year and forty-two years, with interest rates ranging between 1% and 16%.

Major leases include: Vancouver Coastal Health Authority capital lease obligation for the Gordon and Leslie Diamond Health Care Centre of \$108 million (2015: \$109 million), with weighted average interest rate of 5.37% and maturing August 1, 2036, Thompson Rivers University lease agreements for land and student residences of \$38 million (2015: \$39 million), with weighted average interest rate of 5.14% and maturing August 30, 2047, and, British Columbia Institute of Technology capital lease obligation for the building at Annacis Island Campus of \$19 million (2015: \$15 million), with weighted average interest rate of 4.19% and maturing July 31, 2044.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

18. Taxpayer-supported Debt—Continued

Aggregate payments to meet capital lease payments

Aggregate minimum lease payments over the next five fiscal years and thereafter are:

	In Millions Canadian Dollar
	\$
2017.....	22
2018.....	17
2019.....	14
2020.....	12
2021.....	12
2022–2048.....	246
Total minimum lease payments.....	323
Less imputed interest.....	(129)
Total capital lease liability.....	194

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

19. Self-supported Debt¹

In Millions						
Year of Maturity	Canadian Dollar	US Dollar ²	Other Currencies ²	2016 Canadian Dollar Total	2015 Canadian Dollar Total	
	\$	\$	\$	\$	\$	
Short-term promissory notes.....	2016			0	4,664	
	2017	2,090	1,166	3,256	0	
Notes, bonds and debentures.....	2016			0	150	
	2017			0	0	
	2018	40		40	40	
	2019	1,030	204	1,234	1,234	
	2020	675		675	675	
	2021	1,100		1,100	1,100	
	2022–2026	2,526	640	3,557	2,561	
	2027–2031	2,049		2,049	1,550	
	2032–2036	1,260		1,260	1,260	
	2037–2041	1,524	374	1,898	1,896	
	2042–2046	5,218		5,218	4,923	
	2047–2051	1,620		1,620	420	
	2052–2056	60		60	60	
	2057–2061			0	0	
	2062–2063	50		50	50	
Total debt issued at face value.....	19,242	2,384	391	22,017	20,583	
Unamortized premium (discount).....				(82)	(114)	
Unrealized foreign exchange gain (loss).....				(10)	(4)	
Total self-supported debt.....				21,925	20,465	

The effective interest rates (weighted average) as at March 31 on the above debt are:

2016.....	4.01%	
2015.....		4.01%

¹The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 20.

²Foreign currency denominated debt as at March 31, 2016 includes US\$1,858 million (CAD\$2,384 million), of which US\$1,631 million was fully hedged to CAD\$2,090 million and US\$227 million was unhedged (CAD\$294 million), and 264 million EURO was fully hedged to CAD\$391 million.

Notes, bonds and debentures

Redeemable by the province

Balances include debentures issued to the Canada Pension Plan totalling \$371 million (2015: \$371 million) at a weighted average interest rate of 3.98% (2015: 3.98%). These debentures mature at various dates from June 11, 2017 to July 10, 2042, with interest rates varying between 3.22% and 5.06%. These debentures are redeemable in whole or in part before maturity, on thirty days prior notice, at the option of the province. During the year, no Canada Pension Plan debentures were issued (2015: nil).

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

19. Self-supported Debt—Continued

Aggregate payments to meet retirement provisions

Aggregate payments for the next five fiscal years and thereafter to meet retirement provisions on notes, bonds and debentures are:

	In Millions Canadian Dollar
	\$
2017.....	0
2018.....	40
2019.....	1,234
2020.....	675
2021.....	1,100
2022–2063.....	15,073
Total of stated minimum payments.....	<u>18,122</u>

20. Risk Management and Derivative Financial Instruments

The province borrows funds in both domestic and foreign capital markets, and manages its existing debt portfolio to achieve the lowest debt costs within specified risk parameters. As a result, the province is exposed to risks associated with fluctuations in interest rate, foreign exchange rate, and credit risk. In accordance with risk management policy guidelines set by the Risk Committee of the Ministry of Finance, the province uses a variety of derivative financial instruments to hedge exposure to these risks.

Derivatives used by the province include interest rate swaps, cross-currency swaps and forward foreign exchange contracts. A derivative instrument is a financial contract with a counterparty that is applied to effect a hedge on interest rate or foreign exchange exposure that exists in the underlying provincial debt instrument. A derivative derives value from the impact of market changes on the underlying hedged debt instrument.

The following tables present maturity schedules of the province's derivatives, based on the notional amounts of the contracts. Cross-currency swaps can have an exchange of the notional amounts at the start of the contract, the end of the contract, or both. There is no exchange of the notional amounts in interest rate swaps.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

20. Risk Management and Derivative Financial Instruments—Continued

Taxpayer-supported Portfolios (Notional Values)

Year of Maturity	In Millions			Total
	Cross- Currency Swaps ¹	Interest Rate Swaps ¹	Forward Foreign Exchange Contracts ¹	
	\$	\$	\$	\$
2017	1,442		2,328	3,770
2018	1,599			1,599
2019	298			298
2020		300		300
2021		100		100
2022–2026	3,285	1,736		5,021
2027–2031	96	378		474
2032–2036		232		232
2037–2041	204	101		305
Total.....	6,924	2,847	2,328	12,099

¹March 31, 2016, fair market valuation was an unrealized gain of \$1,900 million (2015: \$2,023 million gain) on cross-currency swaps, an unrealized gain of \$327 million (2015: \$402 million gain) on interest rate swaps, no gain or loss (2015: \$300 million loss) on advanced rate setting agreements and an unrealized gain of \$5 million (2015: \$1 million gain) on forward foreign exchange contracts. These unrealized gains and losses are incurred on derivatives held in matched hedging arrangements with related debt instruments. The unrealized gains or losses on these hedging derivatives are offset by corresponding unrealized gains or losses on the matched debt instruments. These gains and losses are subject to measurement uncertainty.

Self-supported Portfolios (Notional Values)

Year of Maturity	In Millions		Total
	Cross- Currency Swaps ²	Forward Foreign Exchange Contracts ²	
	\$	\$	\$
2017		1,166	1,166
2018			0
2019		204	204
2020			0
2021			0
2022–2026	391	436	827
2027–2031			0
2032–2036			0
2037–2041		283	283
Total.....	391	2,089	2,480

²March 31, 2016, fair market valuation was an unrealized loss of \$11 million (2015: nil) on cross currency swaps and an unrealized gain of \$9 million (2015: \$82 million gain) on forward foreign exchange contracts. These unrealized gains and losses are incurred on derivatives held in matched hedging arrangements with related debt instruments that are held to maturity. The unrealized gains or losses on these hedging derivatives are offset by corresponding unrealized gains or losses on the matched debt instruments. These gains and losses are subject to measurement uncertainty.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

20. Risk Management and Derivative Financial Instruments—Continued

Interest rate risk

Interest rate risk is the risk that the province's debt servicing costs will fluctuate due to changes in interest rates. The province uses derivative contracts (interest rate swaps) to manage interest rate risk by exchanging a series of interest payments and assuming either a fixed or floating rate liability to a counterparty, based on the notional principal amount. Derivatives allow the province to alter the proportion of its debt held in fixed and floating rate form to take advantage of changes in interest rates.

The government's current policy guidelines with respect to the provincial government direct debt portfolio, which totals \$31,245 million (2015: \$31,280 million), allow floating rate exposure up to 45.00% (2015: 45.00%) of this portion of the taxpayer-supported debt. At March 31, 2016, floating rate debt exposure was 25.30% (2015: 26.80%) of the government direct debt portfolio.

Under current policy guidelines for British Columbia Hydro and Power Authority (BC Hydro), the maximum floating rate exposure is 25.00% (2015: 35.00%) of their debt that totals \$17,918 million (2015: \$16,534 million). At March 31, 2016, floating rate debt exposure for BC Hydro was 13.30% (2015: 22.10%) of their debt.

Based on the taxpayer-supported and self-supported debt portfolios at March 31, 2016, a one percent change in interest rates would impact the annual debt servicing expense by \$82 million (2015: \$101 million) for the taxpayer-supported debt portfolio and \$33 million (2015: \$47 million) for the self-supported debt portfolio.

At March 31, 2016, swap agreements relating to investments held by taxpayer-supported portfolios included interest rate swaps totalling \$44 million (2015: \$44 million).

Foreign exchange risk

Foreign exchange risk is the risk that the province's debt servicing costs and principal payments will fluctuate due to changes in foreign exchange rates. The province uses derivative contracts (cross-currency swaps and forward currency contracts) to hedge foreign exchange risk by converting foreign currency principal and interest cash flows into Canadian dollar cash flows.

The government's current policy guidelines with respect to the provincial government direct debt portfolio, which totals \$31,245 million (2015: \$31,280 million), allow unhedged foreign debt exposure up to 10.00% (2015: 10.00%) of this portion of the taxpayer-supported debt. At March 31, 2016, there was no unhedged foreign debt exposure of the government direct debt portfolio (2015: nil).

Under current policy guidelines for BC Hydro, the maximum unhedged foreign debt exposure is 5.00% (2015: 5.00%) of its debt, which totals \$17,918 million (2015: \$16,534 million). At March 31, 2016, 0.70% (2015: 0.80%) of its debt was in the form of unhedged foreign debt in US dollars.

Based on the taxpayer-supported and self-supported debt portfolios at March 31, 2016, a one cent change in the Canadian dollar versus the US dollar would impact the annual debt servicing expense by nil (2015: nil) for the taxpayer-supported debt portfolio and \$1 million (2015: \$1 million) for the self-supported debt portfolio.

At March 31, 2016, swap agreements relating to investments held by taxpayer-supported portfolios included cross-currency swaps totalling \$35 million (2015: \$30 million), and forward currency contracts \$41 million (2015: nil).

Credit risk

Credit risk is the risk that the province will incur financial losses due to a counterparty defaulting on its financial obligations. In accordance with the government's policy guidelines, the province reduces its credit risk by dealing with only highly rated counterparties. The province only enters into derivative transactions with counterparties that have a rating from Standard & Poor's or Moody's Investors Service Inc. of at least A+/A1. The province also establishes limits on individual counterparty credit exposures and monitors these exposures on a regular basis.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

21. Net Liabilities

The Consolidated Statement of Change in Net Liabilities (*see* page 39) shows the net impact of applying the expenditure basis of accounting. The net liabilities calculation uses the expenditure, rather than the expense basis of accounting. Under the expenditure basis of accounting, tangible capital assets, prepaid program costs and other assets are recorded as expenditures when calculating the current year surplus or deficit. Under the expense basis of accounting, these items are recorded on the Consolidated Statement of Financial Position as assets and amortized over an applicable period of time.

22. Tangible Capital Assets

	In Millions	
	2016	2015
	\$	\$
Land and land improvements.....	4,669	4,485
Buildings (including tenant improvements).....	20,276	19,501
Highway infrastructure.....	9,621	9,541
Transportation equipment.....	2,765	2,579
Computer hardware and software.....	1,173	1,120
Other.....	1,778	1,802
	<u>40,282</u>	<u>39,028</u>

See Consolidated Statement of Tangible Capital Assets on page 96.

The estimated useful lives of the more common tangible capital assets are: buildings (3–90 years); highway infrastructure (5–40 years); transportation equipment (including rapid transit, ferries and related infrastructure) (2–100 years); computer hardware and software (1–10 years); major software systems (1–15 years); and other (including vehicles, specialized equipment, and furniture and equipment) (1–30 years). Land improvements are amortized over 30 years (recreation areas) or 40 years (dams and water management systems). Leasehold improvements are amortized over 2–40 years, over the lease term, or over the lesser of the lease term and the life of the asset.

BC Transportation Financing Authority (BCTFA) assets include capital assets under lease to South Coast British Columbia Transportation Authority (SCBCTA). These assets were transferred from British Columbia Transit (BCT) and Rapid Transit Project 2000 Ltd (RTP) to BCTFA. These capital assets under lease consist of land, land improvements, stations, guideways, rolling stocks and other assets related to the SkyTrain system, including the Millennium line, the Expo Line and the West Coast Express. These assets are made available for use by SCBCTA under operating lease arrangements pursuant to an Order in Council (OIC) and to the Millennium Line Use Agreement, and represent one of the province's contributions toward public transportation in the Metro Vancouver service area. The operating lease arrangements between SCBCTA and BCTFA are for a nominal lease amount and expire in March 2017 for the Millennium Line and in January 2018 for the Expo line and the West Coast Express. The net book value of these assets is \$1,467 million (2015: \$1,462 million).

The province received donations of tangible capital assets during the year of \$2 million (2015: \$9 million).

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

23. Restricted Assets

	In Millions	
	2016	2015
	\$	\$
Endowment funds.....	<u>1,631</u>	<u>1,553</u>

Donors have placed restrictions on their contributions to the endowment funds of universities, colleges, school districts, health organizations, and taxpayer-supported Crown corporations. One restriction is that the original contribution should not be spent. Another potential restriction is that any investment income of the endowment fund that is required to offset the eroding effect of inflation or preserve the original value of the endowment should also not be spent.

24. Prepaid Program Costs

	In Millions	
	2016	2015
	\$	\$
Prepaid program costs.....	<u>891</u>	<u>881</u>

The prepaid program costs include deferred costs associated with the BC Timber Sales Program, prepaid operating costs and inventories of supplies and other not-for-resale items held by taxpayer-supported Crown corporations and agencies which are charged to expense when consumed in the normal course of operations. At March 31, 2016, the total inventories held for use or consumption was \$303 million (2015: \$297 million). During the year, the total expense due to the consumption of inventories was \$1,383 million (2015: \$1,395 million) including the effect of write-downs of \$3 million (2015: \$2 million). Included in Prepaid Program Costs was \$219 million (2015: \$245 million) related to the BC Public Service Long Term Disability Plan. This amount is also included in Note 32.

25. Other Assets

	In Millions	
	2016	2015
	\$	\$
Deferred debt instrument costs.....	209	197
Other deferred costs.....	<u>1</u>	<u>203</u>
	<u>210</u>	<u>400</u>

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

26. Accumulated Surplus (Deficit)

	In Millions	
	2016	2015
	\$	\$
Accumulated surplus (deficit)—before other comprehensive income—beginning of year as previously reported ¹	3,029	1,346
Adjustments to accumulated surplus (deficit) ^{2,3}	44	35
Accumulated surplus (deficit)—beginning of year as restated.....	3,073	1,381
Surplus (deficit) for the year ⁴	730	1,692
Accumulated surplus (deficit)—before other comprehensive income.....	3,803	3,073
Accumulated other comprehensive income from self-supported Crown corporations and agencies (see page 95)—beginning of year.....	223	481
Other comprehensive income from self-supported Crown corporations and agencies (see page 95).....	(647)	(258)
Accumulated other comprehensive income from self-supported Crown corporations and agencies (see page 95)—end of year.....	(424)	223
Accumulated surplus (deficit)—end of year.....	3,379	3,296

¹The opening accumulated surplus (deficit) figures for April 1, 2015 and April 1, 2014 are reported before accumulated other comprehensive income.

²During 2015/16, adjustments were made to the opening accumulated surplus for 2014/15 as follows:

University of British Columbia restatement of deferred revenue recognition.....	35
Total.....	35

³During 2015/16, adjustments were made to the opening accumulated surplus for 2015/16 for the following items:

University of British Columbia restatement of deferred revenue recognition.....	44
Total.....	44

⁴During 2015/16 adjustments were made to the reported surplus figure for the 2014/15 fiscal year as follows:

University of British Columbia restatement of deferred revenue recognition.....	9
Total.....	9

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

27. Contingencies and Contractual Obligations

(a) GUARANTEED DEBT

The authorized limit for loans guaranteed by the province as at March 31, 2016 was \$397 million (2015: \$403 million). These guarantees include amounts where indemnities have been made for explicit quantifiable loans. Guaranteed debt as at March 31, 2016 totalled \$11 million (2015: \$12 million). See Consolidated Statement of Guaranteed Debt on page 97 for details.

(b) CONTINGENT LIABILITIES

Litigation

The province is a defendant in legal actions and is involved in matters such as expropriation, contract and tax disputes. These matters may give rise to future liabilities.

The province has the following contingent liabilities where the estimated or known claim is, or exceeds \$100,000, but the likelihood of payment is uncertain.

	In Millions	
	2016	2015
	\$	\$
Property access disputes.....	304	303
Contract disputes.....	124	12
Tax disputes.....	106	111
Damage to persons or property.....	2	17
Negligence and miscellaneous.....	11	11
	<u>547</u>	<u>454</u>

When it is determined it is likely a liability exists and the amount can be reasonably estimated, the amount is recorded as an accrued liability (see Note 12) and an expense. The accrued liability for pending litigation in process at March 31, 2016 was \$73 million (2015: \$68 million).

Tax Appeals

The province has received appeals under various tax statutes totalling \$60 million (2015: \$50 million). The cost to the province cannot be determined as the outcome of these appeals is uncertain.

Guarantees and Indemnities

The province also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims for amounts that are not explicit or reasonably estimable at this time.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

27. Contingencies and Contractual Obligations—Continued

Environmental Clean-up

The province is responsible for the remediation of numerous contaminated sites in the province that are no longer in productive economic use.

For sites where the province is directly responsible or has assumed responsibility for remediation, the following provision for future clean-up costs has been accrued based on preliminary environmental assessments, or estimations for those sites where an assessment has not been conducted. The provision is recorded as an accrued liability (*see* Note 12).

	In Millions	
	2016	2015
	\$	\$
Mine sites.....	264	275
Transportation infrastructure.....	50	38
Industrial sites.....	22	24
Pulp mills.....	18	18
Salt sheds.....	5	5
Maintenance yards.....	5	4
Miscellaneous.....	36	33
	<u>400</u>	<u>397</u>

This provision for future clean-up costs is an estimate of the minimum remediation costs for known sites where an assessment has been conducted, or where available information on sites is sufficient to estimate the costs. Where information is not available to make an estimate, costs are extrapolated from the estimated costs of similar sites. Where sites require ongoing remediation, monitoring, or maintenance all estimated future costs are discounted using the province's weighted average cost of capital. As at March 31, 2016 the weighted average cost of capital is 3.60% (2015: 3.76%).

Other sites where historical industrial activity has occurred have been identified for monitoring purposes but have not been assessed. At the reporting date, 30 sites were identified as potentially contaminated due to past industrial use. For these sites there may be insufficient information to determine whether contamination exceeding the relevant environmental standard is likely to exist, or whether remediation is required. The future cost and responsibility for remediation of these sites is not currently determinable.

Additional environmental liabilities of government business enterprises include \$390 million (2015: \$368 million) accrued by British Columbia Hydro and Power Authority, and \$92 million (2015: \$92 million) accrued by British Columbia Railway Company. The liabilities are included in the investment balance of the Crown corporation or agency in Note 7.

Aboriginal Land Claims

Treaty negotiations between the province, Canada and First Nations commenced in 1994. The province anticipates these negotiations will result in modern-day treaties defining the boundaries and nature of First Nations treaty settlement lands. As of March 31, 2016, there were 65 First Nations in various stages of negotiation, including 45 First Nations in active or completed negotiations, representing two-thirds of the aboriginal people in British Columbia.

When final treaty agreements are ratified by all parties, the provincial cost of treaties is recorded in the Public Accounts. Costs are accounted for based on the substance of the final agreement.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

27. Contingencies and Contractual Obligations—Continued

A Final Agreement with Yale First Nation was ratified by the Yale First Nation in March 2011, by the provincial government on June 2, 2011 and by the Parliament of Canada on June 19, 2013. Yale First Nation is now negotiating implementation of the treaty; however, a treaty effective date has not yet been agreed to by the parties. Through the treaty, the province will provide Yale with a capital transfer of \$2.5 million, economic development funding of \$1.1 million and 1,179 hectares of provincial Crown lands.

A Final Agreement with Tla'amin First Nation was ratified by the Tla'amin First Nation on July 10, 2012, by the provincial government on March 5, 2013, and by the Parliament of Canada on June 19, 2014. The Tla'amin treaty took effect on April 5, 2016. Through the treaty, the province will provide Tla'amin First Nation with a one-time payment of \$1 million, 6,406 hectares of provincial Crown land and future resource revenue sharing over 50 years.

It is expected the capital transfer components in all Agreements in Principle (AiP) will be entirely provided by Canada. The current commitments of provincial Crown land for all Final Agreement and Increment Treaty Agreement tables are as follows:

- In-SHUCK-ch, 9,474 hectares
- Lheidli T'enneh, 3,416 hectares
- Sechelt, 933 hectares
- Yekooche, 5,960 hectares
- K'omoks, 1,733 hectares
- Tla-o-qui-aht, 47 hectares
- Nazko, 172 hectares
- Te'mexw (Malahat, Scia'new, Snaw-naw-as, Songhees and T'Sou-ke), 1,182 hectares
- Kitselas, 34,839 hectares
- Kitsumkalum, 44,661 hectares
- Wuikinuxv, 13,946 hectares
- Ditidaht, 71 hectares
- Pacheedaht, 596 hectares
- Ktunaxa Nation Council, 418 hectares
- Lake Babine Nation (BC only), 511 hectares with a one-time payment of \$0.02 million
- Kaska Dena Council, 472 hectares
- Homalco, 822 hectares
- Haisla, 120 hectares
- NStQ (Canoe Creek, Sugar Cane, Canim Lake, Soda Creek), 3,758 hectares

Upon coming into effect, treaties will also trigger implementation costs and may result in compensation to third parties. Those costs are not determinable at this time.

Eighty per cent of funding for First Nations' negotiation costs is in the form of loans from Canada and is repayable from treaty settlements. The province has committed to reimburse Canada 50% of any negotiation support loans that default along with 50% of the interest accrued. The amount of the loans from Canada to the First Nations at March 31, 2016 was approximately \$523 million (2015: \$506 million). The amount of any provincial liability is not determinable at this time.

Some First Nations have chosen not to negotiate through the formal British Columbia Treaty Commission process. A number of First Nations have chosen to advance their claims through litigation. Claims include declarations with respect to aboriginal rights and title, commercial rights, challenges with respect to adequacy of consultation and accommodation, and damages for unjustified infringements. The amount of any provincial liability is not determinable at this time.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

27. Contingencies and Contractual Obligations—Continued

Crown Corporations, Agencies and School Districts, Universities, Colleges, Institutes and Health Organizations (SUCH)

- (i) The BC Transportation Financing Authority has contingent liabilities of \$146 million (2015: \$120 million) remaining after deducting the estimated settlement expense currently accrued from gross claims outstanding for capital projects and \$137 million (2015: \$104 million) of those liabilities is related to expropriation claims.
- (ii) The B.C. Pavilion Corporation and predecessor property owners remain liable for environmental and reclamation obligations for known hazards that may exist at its facilities. Management is not aware of any existing environmental problems related to its facilities that may result in material liability to the B.C. Pavilion Corporation.

(c) CONTRACTUAL OBLIGATIONS

The government has entered into a number of multiple-year contracts for the delivery of services and the construction of assets. These contractual obligations will become liabilities in the future when the terms of the contracts are met. Disclosure relates to the unperformed portion of the contracts. Contractual obligations are future-oriented financial information about non-discounted future cash payments for operating and capital contracts, and do not indicate when the related expenses will be recognized in the financial statements.

The following table presents the minimum amounts required to satisfy the contractual obligations, for contractual obligations that are greater than \$50 million, by sector, by year. Details are available as unaudited supplementary information on the public website at http://www.fin.gov.bc.ca/ocg/pa/15_16/Contractual_Obligations.pdf.

	In Millions						
	2017	2018	2019	2020	2021	2022 and beyond	Total
	\$	\$	\$	\$	\$	\$	\$
Consolidated Revenue Fund and Taxpayer-supported Crown corporations and agencies							
Health.....	1,955	617	555	463	356	4,892	8,838
Education.....	299	111	38	24	21	135	628
Social services.....	266	50	1				317
Natural resources and economic development.....	69	73	74	28	14	132	390
Transportation.....	956	659	606	333	264	9,143	11,961
Other.....	400	299	257	246	237	6,618	8,057
Protection of persons and property.....	409	372	364	365	353	4,118	5,981
General government.....	492	457	411	236	145	83	1,824
	<u>4,846</u>	<u>2,638</u>	<u>2,306</u>	<u>1,695</u>	<u>1,390</u>	<u>25,121</u>	<u>37,996</u>
Self-supported Crown corporations and agencies							
Natural resources and economic development.....	3,125	2,795	2,436	2,334	2,078	50,397	63,165
Transportation.....	44	20	20	2	3		89
Protection of persons and property.....	5	5	6	6	6	3	31
General government.....	38	32	25	18	12	32	157
	<u>3,212</u>	<u>2,852</u>	<u>2,487</u>	<u>2,360</u>	<u>2,099</u>	<u>50,432</u>	<u>63,442</u>
Total.....	<u>8,058</u>	<u>5,490</u>	<u>4,793</u>	<u>4,055</u>	<u>3,489</u>	<u>75,553</u>	<u>101,438</u>

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

28. Taxation Revenue

	In Millions	
	2016	2015
	\$	\$
Personal income.....	8,380	8,076
Provincial sales.....	6,045	5,853
Corporate income.....	2,787	2,635
Property.....	2,219	2,154
Property transfer.....	1,533	1,065
Carbon.....	1,190	1,198
Fuel.....	973	932
Tobacco.....	734	752
Harmonized sales.....	(55)	(91)
Other.....	520	482
	<u>24,326</u>	<u>23,056</u>

Personal income tax and corporate income tax revenues are recorded after deductions for non-refundable tax credits. Deductions allowable in the calculation of personal income tax revenue were \$89 million (2015: \$67 million) and corporate income tax were \$89 million (2015: \$103 million). The types of tax credits adjusting personal income tax and corporation income tax revenues are for foreign taxes, logging taxes, venture capital, scientific and experimental development tax, and mining flow-through share.

Personal income tax revenue was also reduced by \$147 million (2015: \$135 million) for the BC Tax Reduction.

Personal and corporate income tax refunds may be issued under the *International Business Activity Act*. Corporate income tax refunds were \$21 million (2015: \$21 million).

Property tax revenue was recorded net of home owner grants of \$789 million (2015: \$794 million).

29. Natural Resource Revenue

	In Millions	
	2016	2015
	\$	\$
Petroleum, natural gas and minerals.....	1,130	1,594
Forests.....	865	754
Water and other.....	576	589
	<u>2,571</u>	<u>2,937</u>

Oil and gas royalty revenues are reported after adjustments for various royalty deduction programs such as producer cost of service allowances, deep well, marginal, ultra marginal, low production, net profit, new pool discovery and road construction. Deductions allowable in the calculation of royalty revenue were \$348 million (2015: \$850 million). Natural resource revenue includes mining taxes of \$103 million (2015: \$90 million), and logging taxes of \$38 million (2015: \$39 million).

The province offers credits for certain costs incurred by producers including the deep well, road and summer drilling programs. Deep well credits of \$1,918 million (2015: \$1,398 million), road credits of \$29 million (2015: \$11 million) and summer drilling credits of \$3 million (2015: \$3 million) have been incurred by producers and will reduce future natural gas royalties payable when wells go into production.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

30. Expense

	In Millions	
	2016	2015
	\$	\$
Total Expense by Group Account Classification		
Salaries and benefits.....	18,418	17,318
Government transfers.....	11,699	11,011
Operating costs.....	11,046	10,781
Interest ¹	2,786	2,498
Amortization.....	2,086	2,080
Other.....	841	751
	<u>46,876</u>	<u>44,439</u>

¹Includes foreign exchange loss amortization of \$1 million (2015: gain amortization of \$2 million).

31. Valuation Allowances

	In Millions	
	2016	2015
	\$	\$
Accounts receivable.....	190	170
Loans, advances and mortgages receivable.....	25	32
Investments.....	9	1
Tangible capital assets.....	7	1
	<u>231</u>	<u>204</u>

These amounts are included in "Other" of "Total Expense by Group Account Classification" in Note 30, and represent the write-down of assets in the above Consolidated Statement of Financial Position categories.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

32. Trusts Under Administration

Trusts Under Administration, except for a portion of the BC Public Service Long Term Disability Plan, are not included in the Summary Financial Statements, because the province has no equity in or power of appropriation over these trusts. The province administers these trusts on behalf of third parties according to the terms of the underlying trust arrangements. The trust assets consist of cash, term deposits, investments, real estate and other sundry assets. Trust liabilities consist of trade payables, loans payable, mortgages payable, and long-term disability benefits payable. Summary financial information from the financial statements of trust funds is provided below.

	Assets	In Millions Liabilities	2016	2015
	\$	\$	\$	\$
Public Guardian and Trustee of British Columbia ¹				
—administered by government officials.....	897	(34)	863	843
Credit Union Deposit Insurance Corporation of British Columbia ¹				
—administered by various government officials and a non-government investment corporation.....	543	(1)	542	495
Supreme and provincial court (Suitors' Funds)				
—administered by the Courts.....	86		86	71
Other trust funds				
—administered by various government officials.....	144	(19)	125	114
	<u>1,670</u>	<u>(54)</u>	<u>1,616</u>	<u>1,523</u>

BC Public Service Long Term Disability Plan

	Assets	In Millions Liabilities	2016	2015
	\$	\$	\$	\$
Plan participants within the government reporting entity.....	561	(332)	229	259
Plan participants outside the government reporting entity.....	40	(31)	9	9
	<u>601</u>	<u>(363)</u>	<u>238</u>	<u>268</u>

Equity for participants within the government reporting entity is comprised of \$228 million for the Consolidated Revenue Fund and \$1 million for Crown corporations and agencies. The Consolidated Revenue Fund records its position, net of liabilities to the plan, as a non-financial asset that is included in Note 24. The net position at March 31, 2016 was \$219 million (2015: \$245 million).

¹These organizations are reported under International Financial Reporting Standards. Their financial statements are draft and unaudited when the Public Accounts are prepared.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

33. Comparison to Estimates

The Estimates numbers on the Statement of Operations are taken from the Estimated Statement of Operations, the Estimated Revenue by Source, and the Estimated Expense by Function, on pages 4 – 6 of the *Estimates, Fiscal Year Ending March 31, 2016*, presented to the Legislative Assembly February 17, 2015.

34. Comparatives

Comparative figures have been restated to conform with the current year's presentation. The effect of restatements on the previously reported operating result is disclosed in Note 26.

35. Asset Retirement Obligations¹

	In Millions	
	2016	2015
	\$	\$
Consolidated Revenue Fund and Taxpayer-supported Crown corporations and agencies		
Education.....	20	21
Natural resources and economic development.....	9	7
Health.....	3	3
	<u>32</u>	<u>31</u>
Self-supported Crown corporations and agencies		
Transportation.....	145	128
Natural resources and economic development.....	56	53
General government.....	2	1
	<u>203</u>	<u>182</u>
	<u><u>235</u></u>	<u><u>213</u></u>

¹Additional asset retirement obligation costs exist which have not been recognized because they cannot be reasonably estimated at this time. Self-supported Crown corporations' balances in the natural resources and economic development, transportation and general government sectors are calculated using International Financial Reporting Standards.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

36. Government Partnerships

Canadian Blood Services owns and operates the national blood supply system for Canada, except for the province of Quebec. It is a government partnership amongst Canadian provinces and territories. The ministers of health for the provinces and territories, except Quebec, provide contributions to fund its operations. Its financial results are proportionately consolidated with those of the province based upon the province's share of its total provincial contributions (14.67%). The amounts included in these financial statements are as follows:

Consolidated Statement of Financial Position

	In Millions	
	2016	2015
	\$	\$
Financial assets.....	93	91
Liabilities.....	126	117
Net liabilities.....	(33)	(26)
Non-financial assets.....	54	52
Accumulated surplus (deficit).....	21	26

Consolidated Statement of Operations

	In Millions	
	2016	2015
	\$	\$
Revenue.....	168	157
Expenses.....	173	158
Surplus (deficit) for the year.....	(5)	(1)
Accumulated surplus (deficit)—beginning of year.....	26	27
Accumulated surplus (deficit)—end of year.....	21	26

37. Regulatory Accounting

Included in the Summary Financial Statements are entities that are regulated by the independent British Columbia Utilities Commission (the Commission). The Commission is responsible for regulating utilities in British Columbia which includes establishing tariffs, approving the construction of new facilities planned by utilities, and their issuance of securities. As an independent provincial agency, the operating results of the Commission are also included in the Summary Financial Statements.

Rate-regulation can result in the deferral and amortization of costs and recoveries to allow for adjustment of future rates. In the absence of rate-regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. BC Hydro had unamortized net regulatory assets at the end of March 31, 2016 of \$5,908 million (2015: \$5,433 million). Regulatory accounting resulted in an increase to net income for BC Hydro for the year ended March 31, 2016 of \$403 million (2015: \$470 million). Further details are available in BC Hydro's financial statements outside these audited financial statements at <http://www.fin.gov.bc.ca/pubs.htm>.

Notes to Consolidated Summary Financial Statements for the Fiscal Year Ended March 31, 2016—Continued

38. Significant Events

On March 11, 2016, British Columbia Hydro and Power Authority awarded a contract for the purchase of six turbines, six generators, and associated equipment. The contract was in the amount of \$470 million and was related to the ongoing development of the Site C dam.

39. Subsequent Events

During the fiscal year, the Musqueam, Squamish, and Tsleil–Waututh First Nations signed an agreement with the province to purchase 38.8 acres of the Jericho Lands area of Vancouver, for a net sale price of \$480 million. The two parcels of land will transfer to the First Nations on November 1, 2016 and November 1, 2017.

**Supplementary Statement to the
Consolidated Summary Financial Statements
Reporting Entity**

for the Fiscal Year Ended March 31, 2016

TAXPAYER-SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT ORGANIZATIONS)
RECORDED ON A CONSOLIDATED BASIS

Consolidated Revenue Fund¹

Health Sector

Canadian Blood Services²
Fraser Health Authority
Interior Health Authority
Louis Brier Home and Hospital
Menno Hospital
Mount St. Mary Hospital
Nisga'a Valley Health Authority
Northern Health Authority
Providence Health Care
Provincial Health Services Authority
St Joseph's General Hospital
St Michael's Centre
Vancouver Coastal Health Authority
Vancouver Island Health Authority
Wrinch Memorial Hospital

Education Sector

BCNET³
British Columbia Institute of Technology
Camosun College
Capilano University
College of New Caledonia
College of the Rockies
Douglas College
Emily Carr University of Art & Design
Industry Training Authority
Justice Institute of British Columbia
Knowledge Network Corporation
Kwantlen Polytechnic University
Langara College
Nicola Valley Institute of Technology
North Island College
Northern Lights College
Northwest Community College
Okanagan College

**Supplementary Statement to the
Consolidated Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2016—Continued**
TAXPAYER-SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT ORGANIZATIONS)
RECORDED ON A CONSOLIDATED BASIS

Education Sector—Continued

Private Career Training Institutions Agency
Royal Roads University
School Districts
Selkirk College
Simon Fraser University
The British Columbia Council for International Education
The University of British Columbia
Thompson Rivers University
Trades Training Consortium of British Columbia⁴
University of the Fraser Valley
University of Northern British Columbia
University of Victoria
Vancouver Community College
Vancouver Island University

Natural Resources and Economic Development Sector

BC Immigrant Investment Fund Ltd
B.C. Pavilion Corporation
British Columbia Enterprise Corporation
British Columbia Innovation Council
Columbia Basin Trust
Creston Valley Wildlife Management Authority Trust Fund
Destination BC Corp.
Forestry Innovation Investment Ltd
Nechako–Kitimaat Development Fund Society
Oil and Gas Commission
Partnerships British Columbia Inc

Transportation Sector

BC Transportation Financing Authority
British Columbia Transit
Rapid Transit Project 2000 Ltd⁵

Protection of Persons and Property Sector

British Columbia Securities Commission
Organized Crime Agency of British Columbia Society

Social Services Sector

Community Living British Columbia
Legal Services Society

**Supplementary Statement to the
Consolidated Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2016—Continued**
TAXPAYER–SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT ORGANIZATIONS)
RECORDED ON A CONSOLIDATED BASIS

Other Sector

BC Games Society
British Columbia Assessment Authority
British Columbia Housing Management Commission
British Columbia Public School Employers' Association
Community Social Services Employers' Association of British Columbia
Crown Corporations Employers' Association
First Peoples' Heritage, Language and Culture Council
Health Employers Association of British Columbia
Post–Secondary Employers' Association
Provincial Rental Housing Corporation
The Royal British Columbia Museum Corporation

SELF–SUPPORTED CROWN CORPORATIONS AND AGENCIES
(GOVERNMENT BUSINESS ENTERPRISES)
RECORDED ON A MODIFIED EQUITY BASIS

British Columbia Hydro and Power Authority⁶
British Columbia Liquor Distribution Branch⁷
British Columbia Lottery Corporation⁷
British Columbia Railway Company⁸
Columbia Power Corporation⁶
Insurance Corporation of British Columbia⁹
Transportation Investment Corporation⁸

¹The Consolidated Revenue Fund has been allocated to the appropriate sector on the Consolidated Statement of Financial Position by Sector (page 84) and on the Consolidated Statement of Operations by Sector (page 88).

²This organization reflects a government partnership amongst Canadian provinces and is proportionally consolidated based upon the province's share (14.67%) of the total provincial contributions to the partnership.

³This organization was included in operations for the first time during the fiscal year.

⁴During the fiscal year this organization wound up to become part of British Columbia Institute of Technology.

⁵During the fiscal year this organization wound up to become part of BC Transportation Financing Authority.

⁶These organizations were included in the Natural Resources and Economic Development Sector results.

⁷These organizations were included in the General Government Sector results.

⁸These organizations were included in the Transportation Sector results.

⁹This organization was included in the Protection of Persons and Property Sector results.

Supplementary Statement to the Summary Financial Statements Consolidated Statement of Financial Position by Sector as at March 31, 2016

	In Millions										Natural Resources and Economic Development	
	Health		Education		Social Services		Debt Servicing ¹					
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Financial Assets												
Cash and cash equivalents.....	1,811	1,273	2,029	1,915	8	7	1,425	1,510	114	196		
Temporary investments.....	31	43	130	137	7	8			183	177		
Accounts receivable.....	632	384	278	295	55	51	371	346	303	334		
Inventories for resale.....	2	2	30	28					20	15		
Due from Crown corporations and agencies.....	3	4	11	9	1	2			1			
Due from other governments.....	66	58	51	50	34	32			66	41		
Due from self-supported Crown corporations and agencies.			41	77					333	273		
Equity in self-supported Crown corporations and agencies.			74	64					4,934	4,558		
Loans, advances and mortgages receivable.....	5	13	965	952	1	1			253	277		
Other investments.....	83	104	1,585	1,416	4	6	9	9	293	305		
Sinking fund investments.....			35	30			1,580	977				
Loans for purchase of assets, recoverable from agencies.....							30,638	28,481				
	2,633	1,881	5,229	4,973	110	107	34,023	31,323	6,500	6,176		

Supplementary Statement to the Summary Financial Statements Consolidated Statement of Financial Position by Sector—Continued as at March 31, 2016

In Millions

	Transportation		Other ²		Protection of Persons and Property		General Government ³		Adjustments ⁴		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Financial Assets												
Cash and cash equivalents.....	104	89	89	88	33	16	(114)	(191)	(2,039)	(1,666)	3,460	3,237
Temporary investments.....			82	74							433	439
Accounts receivable.....	47	14	289	277	80	75	1,813	1,818	(107)	(105)	3,761	3,489
Inventories for resale.....	12	10	6	5	2	2	5	8			77	70
Due from Crown corporations and agencies.....	43	35	15						(74)	(50)	0	0
Due from other governments.....	176	138	20	27	132	166	371	384			916	896
Due from self-supported Crown corporations and agencies.....					138	139	142	144			654	633
Equity in self-supported Crown corporations and agencies.....	(280)	(223)			2,845	3,947	(74)	(75)	(213)	(242)	7,499	8,271
Loans, advances and mortgages receivable.....			240	231	1	1	737	669			1,989	1,902
Other investments.....	76	76	173	172	31	43			(115)	(119)	2,254	2,131
Sinking fund investments.....	80	89							(8,564)	(7,857)	1,580	977
Loans for purchase of assets, recoverable from agencies.....											22,074	20,624
	258	228	914	874	3,262	4,389	2,880	2,757	(11,112)	(10,039)	44,697	42,669

Supplementary Statement to the Summary Financial Statements Consolidated Statement of Financial Position by Sector—Continued as at March 31, 2016

	In Millions									
	Health		Education		Social Services		Debt Servicing ¹		Natural Resources and Economic Development	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Liabilities	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities.....	1,518	1,416	1,101	1,006	94	88	669	644	1,030	969
Employee future benefits.....	1,203	1,074	526	509	24	32			26	25
Due to other governments.....	49	51	12	18					10	11
Due to Crown corporations, agencies and trust funds.....	10	8	1	3	1	1	2,054	1,666		13
Due to the Province of British Columbia.....	5	8			4	4			10	9
Deferred revenue.....	2,031	1,875	3,012	2,799	9	9	138	78	1,923	2,607
Employee pension plans.....			244	259						
Taxpayer-supported debt.....	1,582	1,416	797	792			40,275	39,039	450	565
Self-supported debt.....							21,925	20,465		
	6,398	5,848	5,693	5,386	132	134	65,061	61,892	3,449	4,199
Net assets (liabilities).....	(3,765)	(3,967)	(464)	(413)	(22)	(27)	(31,038)	(30,569)	3,051	1,977
Non-financial Assets										
Tangible capital assets.....	7,203	6,832	14,283	13,867	196	207			2,330	2,334
Restricted assets.....	6		1,625	1,553						
Prepaid program costs.....	288	262	72	65	1	1			178	172
Other assets.....		197	2	5		1	54	66		
	7,497	7,291	15,982	15,490	197	209	54	66	2,508	2,506
Accumulated surplus (deficit).....	3,732	3,324	15,518	15,077	175	182	(30,984)	(30,503)	5,559	4,483

Supplementary Statement to the Summary Financial Statements Consolidated Statement of Financial Position by Sector—Continued as at March 31, 2016

In Millions

	Transportation		Other ²		Protection of Persons and Property		General Government ³		Adjustments ⁴		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Liabilities												
Accounts payable and accrued liabilities.....	390	371	180	154	265	265	658	574	(131)	(118)	5,774	5,369
Employee future benefits.....	27	25	10	10	35	34	218	212			2,069	1,921
Due to other governments.....	34		10	6	155	139	149	486			419	711
Due to Crown corporations, agencies and trust funds.....			65	36				3	(2,068)	(1,680)	63	50
Due to the Province of British Columbia.....		1	2	2					(21)	(24)	0	0
Deferred revenue.....	2,150	1,936	121	131	307	312	18	18			9,709	9,765
Employee pension plans.....							2	2			246	261
Taxpayer-supported debt.....	9,438	8,703	332	303			145	92	(8,892)	(8,217)	44,127	42,693
Self-supported debt.....											21,925	20,465
	12,039	11,036	720	642	762	750	1,190	1,387	(11,112)	(10,039)	84,332	81,235
Net assets (liabilities).....	(11,781)	(10,808)	194	232	2,500	3,639	1,690	1,370	0	0	(39,635)	(38,566)
Non-financial Assets												
Tangible capital assets.....	13,820	13,436	1,411	1,386	55	58	1,001	925	(17)	(17)	40,282	39,028
Restricted assets.....											1,631	1,553
Prepaid program costs.....	22	39	34	31	2	2	294	309			891	881
Other assets.....	154	131									210	400
	13,996	13,606	1,445	1,417	57	60	1,295	1,234	(17)	(17)	43,014	41,862
Accumulated surplus (deficit)	2,215	2,798	1,639	1,649	2,557	3,699	2,985	2,604	(17)	(17)	3,379	3,296

¹Debt servicing represents the financial impacts of activities related to management of the public debt.

²The Other Sector consists of activities, such as housing and culture, which cannot be allocated to any of the specifically described sector classifications.

³Includes the Legislature, tax collection and administration, Canadian Health and Social Transfers from the federal government, liquor and gaming profits, general administration and central agency services such as accounting, auditing, budgeting, insurance and risk management to all sectors.

⁴Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors.

Supplementary Statement to the Summary Financial Statements Consolidated Statement of Operations by Sector for the Fiscal Year Ended March 31, 2016

	In Millions									
	Health		Education		Social Services		Debt Servicing ¹		Natural Resources and Economic Development	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenue	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Taxation.....										
Contributions from the federal government.....	56	76	1,004	950	79	75			45	43
Fees and licenses.....	2,848	2,650	1,912	1,764	5	5			119	118
Miscellaneous.....	1,225	833	1,348	1,264	17	20			163	204
Contributions from the provincial government / net earnings of self-supported Crown corporations and agencies.....	47	43	188	187	17	19			760	633
Natural resources.....									2,571	2,937
Investment income.....	17	15	228	228	2	2	1,218	1,149	47	42
Total revenue.....	4,193	3,617	4,680	4,393	120	121	1,218	1,149	3,705	3,977

Supplementary Statement to the Summary Financial Statements Consolidated Statement of Operations by Sector—Continued for the Fiscal Year Ended March 31, 2016

In Millions

	Transportation		Other ²		Protection of Persons and Property		General Government ³		Adjustments ⁴		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenue	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Taxation.....	529	511	86	84			23,711	22,461			24,326	23,056
Contributions from the federal government.....	72	67	147	165	78	66	6,166	5,837			7,647	7,279
Fees and licenses.....	61	60	25	19	842	783	27	26	(3)		5,836	5,425
Miscellaneous.....	40	52	113	113	151	150	333	331	(92)	(107)	3,298	2,860
Contributions from the provincial government / net earnings of self-supported Crown corporations and agencies.....	(65)	(73)	20	23	(293)	657	2,335	2,180	(307)	(298)	2,702	3,371
Natural resources.....											2,571	2,937
Investment income.....	10	11	12	62	2	2	25	19	(335)	(327)	1,226	1,203
Total revenue.....	647	628	403	466	780	1,658	32,597	30,854	(737)	(732)	47,606	46,131

Supplementary Statement to the Summary Financial Statements Consolidated Statement of Operations by Sector—Continued for the Fiscal Year Ended March 31, 2016

Expense	In Millions									
	Health		Education		Social Services		Debt Servicing ¹		Natural Resources and Economic Development	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Salaries and benefits.....	7,536	7,108	8,325	7,822	417	415			591	560
Government transfers.....	5,130	4,944	1,044	1,263	2,742	2,523			1,082	729
Operating costs.....	5,969	5,758	1,945	1,852	916	916			584	601
Interest.....	93	91	40	41			2,613	2,325	13	16
Amortization.....	547	562	722	722	18	10			106	103
Other.....	275	256	216	219	60	31			211	209
Operating expense.....	19,550	18,719	12,292	11,919	4,153	3,895	2,613	2,325	2,587	2,218
Surplus (deficit) for the Fiscal Year ended March 31.....	(15,357)	(15,102)	(7,612)	(7,526)	(4,033)	(3,774)	(1,395)	(1,176)	1,118	1,759

Supplementary Statement to the Summary Financial Statements Consolidated Statement of Operations by Sector—Continued for the Fiscal Year Ended March 31, 2016

In Millions

	Transportation		Other ²		Protection of Persons and Property		General Government ³		Adjustments ⁴		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Expense	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Salaries and benefits.....	160	155	167	158	746	723	476	377			18,418	17,318
Government transfers.....	149	78	905	947	658	556	206	175	(217)	(204)	11,699	11,011
Operating costs.....	839	846	133	124	156	158	507	527	(3)	(1)	11,046	10,781
Interest.....	351	340	8	9			3	3	(335)	(327)	2,786	2,498
Amortization.....	533	524	59	56	15	15	86	88			2,086	2,080
Other.....		8	15	12	16	19	230	197	(182)	(200)	841	751
Operating expense.....	2,032	1,951	1,287	1,306	1,591	1,471	1,508	1,367	(737)	(732)	46,876	44,439
Surplus (deficit) for the Fiscal Year ended March 31.....	(1,385)	(1,323)	(884)	(840)	(811)	187	31,089	29,487	0	0	730	1,692

¹Debt servicing represents the financial impacts of activities related to management of the public debt.

²The Other Sector consists of activities, such as housing and culture, which cannot be allocated to any of the specifically described sector classifications.

³Includes the Legislature, tax collection and administration, Canadian Health and Social Transfers from the federal government, liquor and gaming profits, general administration and central agency services such as accounting, auditing, budgeting, insurance and risk management to all sectors.

⁴Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors.

Supplementary Statement to the Summary Financial Statements Statement of Financial Position for Self-supported Crown Corporations and Agencies¹ as at March 31, 2016

	In Millions				
	Natural Resources and Economic Development ²	Protection of Persons and Property ³	Transportation ⁴	General Government ⁵	2015 Sub-Total
	\$	\$	\$	\$	\$
Assets					
Cash and cash equivalents.....	144	67	14	87	230
Accounts receivable.....	858	1,410	36	66	2,198
Inventories.....	155			108	221
Other investments.....	665	14,700	1		15,093
Tangible capital assets.....	21,995	404	3,165	327	24,355
Other assets.....	6,759	182		18	6,359
Total Assets.....	30,576	16,763	3,216	606	48,456
Liabilities					
Accounts payable and accrued liabilities.....	4,453	11,418	51	375	14,737
Deferred revenue.....	2,548	2,362	3	13	4,430
Due to Province of British Columbia.....	333	138		142	556
Debt due to Province of British Columbia.....	18,512		3,579	150	20,858
Other debt.....				0	0
	25,846	13,918	3,633	680	40,581
Equity					
Investment by Province of British Columbia.....	46		150		196
Other comprehensive income.....	43	(227)	(173)	(57)	233
Unremitted earnings—end of year.....	4,641	3,072	(394)	(17)	7,446
	4,730	2,845	(417)	(74)	7,875
Total Liabilities and Equity.....	30,576	16,763	3,216	606	48,456

Supplementary Statement to the Summary Financial Statements Statement of Financial Position for Self-supported Crown Corporations and Agencies¹ as at March 31, 2016—Continued

	Education subsidiaries ⁶	In Millions				2015 Sub-Total	2016 Grand Total	2015 Grand Total
		Natural Resources subsidiaries ⁷	Transportation subsidiaries ⁸	2016 Sub-Total	\$			
Assets	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents.....	38	22	97	157	171	469	401	
Accounts receivable.....	72	16	3	91	55	2,461	2,253	
Inventories.....	93			93	65	356	286	
Other investments.....	28		132	160	151	15,526	15,244	
Tangible capital assets.....	339	212	178	729	722	26,620	25,077	
Other assets.....	3	192	1	196	192	7,155	6,551	
Total Assets.....	573	442	411	1,426	1,356	52,587	49,812	
Liabilities								
Accounts payable and accrued liabilities.....	54	14	244	312	292	16,609	15,029	
Deferred revenue.....	15		30	45	63	4,971	4,493	
Due to Province of British Columbia.....	41			41	77	654	633	
Debt due to Province of British Columbia.....	78			78	76	22,319	20,934	
Other debt.....	311	224		535	452	535	452	
	499	238	274	1,011	960	45,088	41,541	
Equity								
Investment by Province of British Columbia.....	94	197	107	398	367	594	563	
Other comprehensive income.....	(2)		(8)	(10)	(10)	(424)	223	
Unremitted earnings—end of year.....	(18)	7	38	27	39	7,329	7,485	
	74	204	137	415	396	7,499	8,271	
Total Liabilities and Equity.....	573	442	411	1,426	1,356	52,587	49,812	

¹Self-supported Crown corporations and agencies report under IFRS. These statements include related party transactions between self-supported Crown corporations and with taxpayer-supported entities. No elimination entries are recorded for these transactions. They are in the normal course of operations and are recorded at the exchange amount. The normal course of operations includes trade, financial and legal services, shared administration, business relationships, collaboration on projects, carbon offsets, and payment of cash dividends. Significant balances are disclosed in the notes to these financial statements.

²British Columbia Hydro and Power Authority and Columbia Power Corporation.

³Insurance Corporation of British Columbia.

⁴Transportation Investment Corporation.

⁵British Columbia Liquor Distribution Branch and British Columbia Lottery Corporation. In fiscal 2016 British Columbia Liquor Distribution Branch changed to a new pricing model. The prior year's result has been restated for this change, with decreases to revenue and expense of \$215 million.

⁶Self-supported subsidiaries, including Great Northern Way Campus Trust, Heritage Realty Properties Ltd., SFU Community Trust, UBC Properties Trust, and Vancouver Island Technology Park Trust, of post-secondary institutions.

⁷Columbia Basin Trust joint ventures with Columbia Power Corporation (Brilliant Power Corporation, Brilliant Expansion Power Corporation, Arrow Lakes Power Corporation, and Waneta Expansion Power Corporation).

⁸Columbia Power Corporation's equity investment is included as an integral component of Columbia Power Corporation.

⁹British Columbia Rail Company, a subsidiary of BC Transportation Financing Authority.

Supplementary Statement to the Summary Financial Statements Summary of Results of Operations and Statement of Equity for Self-supported Crown Corporations and Agencies¹ for the Fiscal Year Ended March 31, 2016

	In Millions				
	Natural Resources and Economic Development ²	Protection of Persons and Property ³	Transport- ation ⁴	General Government ⁵	2015 Sub-Total
	\$	\$	\$	\$	\$
Revenue.....	5,721	5,361	136	6,269	17,487
Expense.....	5,024	5,654	218	3,934	14,830
Net earnings of self-supported Crown corporations and agencies	697	(293)	(82)	2,335	2,657
Dividends.....	(329)	(138)		(2,085)	(2,552)
Adjustments to dividends.....				(249)	(249)
Transfers (to) from deferred revenue.....					
Increase(decrease) in unremitted earnings in self-supported Crown corporations and agencies.....	368	(431)	(82)	1	754
Unremitted earnings—beginning of year.....	4,273	3,503	(312)	(18)	7,446
Adjustments to unremitted earnings.....					
Unremitted earnings—end of year.....	4,641	3,072	(394)	(17)	7,302
Accumulated other comprehensive income—beginning of year.	42	444	(196)	(57)	233
Adjustments to accumulated other comprehensive income.....					
Other comprehensive income.....	1	(671)	23		(647)
Accumulated other comprehensive income—end of year.....	43	(227)	(173)	(57)	233
Investment by Province of British Columbia.....	46		150		196
Equity in self-supported Crown corporations and agencies for the year.....	4,730	2,845	(417)	(74)	7,084
					7,875

Supplementary Statement to the Summary Financial Statements Summary of Results of Operations and Statement of Equity for Self-supported Crown Corporations and Agencies¹ for the Fiscal Year Ended March 31, 2016—Continued

	In Millions					2015 Sub-Total	2016 Sub-Total	2015 Sub-Total	2016 Sub-Total	2015 Grand Total	2016 Grand Total
	Education subsidiaries ⁶	Natural Resources subsidiaries ⁷	Transportation subsidiaries ⁸	\$	\$						
Revenue.....	76	71	23		170	123			170	17,657	17,088
Expense.....	72	36	17		125	91			125	14,955	13,717
Net earnings of self-supported Crown corporations and agencies	4	35	6		45	32			45	2,702	3,371
Dividends.....	(25)	(28)	(4)		(57)	(65)			(57)	(2,609)	(2,401)
Adjustments to dividends.....										(249)	(249)
Transfers (to) from deferred revenue.....						(1)					(1)
Increase(decrease) in unremitted earnings in self-supported Crown corporations and agencies.....	(21)	7	2		(12)	(34)			(12)	(156)	720
Unremitted earnings—beginning of year.....	3		36		39	73			39	7,485	6,765
Adjustments to unremitted earnings.....											
Unremitted earnings—end of year.....	(18)	7	38		27	39			27	7,329	7,485
Accumulated other comprehensive income—beginning of year.	(2)		(8)		(10)	(6)			(10)	223	481
Adjustments to accumulated other comprehensive income.....										(647)	(258)
Other comprehensive income.....						(4)					
Accumulated other comprehensive income—end of year.....	(2)	0	(8)		(10)	(10)			(10)	(424)	223
Investment by Province of British Columbia.....	94	197	107		398	367			398	594	563
Equity in self-supported Crown corporations and agencies for the year.....	74	204	137		415	396			415	7,499	8,271

¹Self-supported Crown corporations and agencies report under IFRS. These statements include related party transactions between self-supported Crown corporations and with taxpayer-supported entities. No elimination entries are recorded for these transactions. They are in the normal course of operations and are recorded at the exchange amount. The normal course of operations includes trade, financial and legal services, shared administration, business relationships, collaboration on projects, carbon offsets, and payment of cash dividends. Significant balances are disclosed in the notes to these financial statements.

²British Columbia Hydro and Power Authority and Columbia Power Corporation.

³Insurance Corporation of British Columbia.

⁴Transportation Investment Corporation.

⁵British Columbia Liquor Distribution Branch and British Columbia Lottery Corporation. In fiscal 2016 British Columbia Liquor Distribution Branch changed to a new pricing model. The prior year's result has been restated for this change, with decreases to revenue and expense of \$215 million.

⁶Self-supported subsidiaries, including Great Northern Way Campus Trust, Heritage Realty Properties Ltd., SFU Community Trust, UBC Properties Trust, and Vancouver Island Technology Park Trust, of post-secondary institutions.

⁷Columbia Basin Trust joint ventures with Columbia Power Corporation (Brilliant Power Corporation, Brilliant Expansion Power Corporation, and Waneta Expansion Power Corporation).

⁸British Columbia Rail Company, a subsidiary of BC Transportation Financing Authority.

Supplementary Statement to the Summary Financial Statements Consolidated Statement of Tangible Capital Assets¹ for the Fiscal Year Ended March 31, 2016

	Land and Land Improvements	Building	Highway Infrastructure	Transport – Equipment	Computer Hardware/ Software	Other ³	2016 Total	2015 Total
	\$	\$	\$	\$	\$	\$	\$	\$
Historical Cost ²								
Opening Cost.....	4,741	30,810	18,111	3,867	3,474	6,259	67,262	64,852
Additions.....	271	1,630	562	269	310	415	3,457	3,407
Disposals and valuation adjustments.....	(78)	(103)	(8)	(24)	(152)	(401)	(766)	(997)
	4,934	32,337	18,665	4,112	3,632	6,273	69,953	67,262
Accumulated Amortization								
Opening balance.....	(256)	(11,309)	(8,570)	(1,288)	(2,354)	(4,457)	(28,234)	(27,074)
Amortization expense.....	(25)	(803)	(481)	(83)	(250)	(444)	(2,086)	(2,080)
Effect of disposals and valuation adjustments.....	16	51	7	24	145	406	649	920
	(265)	(12,061)	(9,044)	(1,347)	(2,459)	(4,495)	(29,671)	(28,234)
Net book value for the year ended								
March 31, 2016.....	4,669	20,276	9,621	2,765	1,173	1,778	40,282	
Net book value for the year ended								
March 31, 2015.....	4,485	19,501	9,541	2,579	1,120	1,802		39,028

¹This statement includes assets that are held on capital leases at March 31, 2016 at a gross value of \$371 million less accumulated amortization of \$(197) million for a net book value totalling \$174 million (2015: gross value of \$369 million less accumulated amortization of \$(190) million for a net book value of \$179 million) comprised of: heavy equipment gross \$4 million less accumulated amortization \$(3) million for a net book value of \$1 million (2015: gross \$6 million less accumulated amortization \$(3) million for a net book value of \$3 million); vehicles gross \$- million less accumulated amortization \$- million for a net book value of \$- million (2015: gross \$1 million less accumulated amortization \$(1) million for a net book value of \$- million); computer hardware/software gross \$155 million less accumulated amortization \$(134) million for a net book value of \$21 million (2015: gross \$148 million less accumulated amortization \$(130) million for a net book value of \$18 million); buildings gross \$183 million less accumulated amortization \$(34) million for a net book value of \$149 million (2015: gross \$183 million less accumulated amortization \$(29) million for a net book value of \$154 million); and other assets gross \$29 million less accumulated amortization \$(26) million for a net book value of \$3 million (2015: gross \$31 million less accumulated amortization \$(27) million for a net book value of \$4 million).

²Historical cost includes work-in-progress at March 31, 2016 totalling \$3,830 million (2015: \$2,868 million) comprised of: buildings \$1,871 million (2015: \$1,343 million); land improvements \$29 million (2015: \$27 million); highway infrastructure \$342 million (2015: \$242 million); transportation equipment \$1,127 million (2015: \$884 million); computer hardware/software \$421 million (2015: \$337 million); and specialized equipment \$40 million (2015: \$35 million). Work-in-progress is not amortized. Work-in-progress includes capitalized interest expense at March 31, 2016 totalling \$26 million (2015: \$17 million).

³Other" at net book value includes office furniture and equipment \$609 million (2015: \$621 million), vehicles \$85 million (2015: \$78 million), machinery \$906 million (2015: \$931 million) and miscellaneous \$178 million (2015: \$172 million).

Supplementary Statement to the Summary Financial Statements Consolidated Statement of Guaranteed Debt as at March 31, 2016

Guaranteed debt represents the debt of organizations that has been explicitly guaranteed or indemnified by the government under the authority of a statute as to net principal or redemption provisions. These organizations may include municipalities and other governments, private enterprises and individuals, minority interests of provincial Crown corporations and agencies, and SUCH¹ sector entities.

	In Millions			
	2016		2015	
	Maximum Guarantee Authorized \$	Net Outstanding \$	Maximum Guarantee Authorized \$	Net Outstanding \$
Taxpayer-supported Guaranteed Debt				
General government:				
<i>Homeowner Protection Act</i> loan guarantees ²	375	2	375	4
Subtotal, general government.....	375	2	375	4
Health and education:				
<i>Financial Administration Act</i> student aid loans.....	2		8	
Subtotal, health and education.....	2	0	8	0
Natural resources and economic development:				
<i>Financial Administration Act</i> :				
Feeder's Association Loan Guarantee.....	10	6	10	5
Subtotal, natural resources and economic development.....	10	6	10	5
Total taxpayer-supported guaranteed debt.....	387	8	393	9
Self-supported Guaranteed Debt				
<i>Hydro and Power Authority Act</i> bonds and debentures ³	10	10	10	10
Total self-supported guaranteed debt.....	10	10	10	10
Grand total, all guaranteed debt.....	397	18	403	19
Provision for probable payout.....		(7)		(7)
Net total, all guaranteed debt.....	397	11	403	12

¹School districts, universities, colleges and health authorities/hospital societies.

²*Homeowner Protection Act* loan guarantees include indemnities provided to Canadian Mortgage and Housing Corporation (CMHC) for any claims made on reconstruction loans made to homeowners for repairs to homes with premature building envelope failure.

³The government has unconditionally guaranteed the payment of principal and interest for \$10 million (2015: \$10 million) of debentures issued to the Canada Pension Plan Investment Fund that matures on August 9, 2024 with a coupon rate of 5.54%.

Supplementary Information (Unaudited)

The following unaudited supplementary information is intended to provide additional information to financial statement readers and includes:

- a) the impacts of the Crown corporations and the school districts, universities, colleges, institutes and health organizations (SUCH) sector on the province's annual surplus (deficit); and
- b) the Consolidated Staff Utilization.

The purpose of this information is to report organizational impacts on the Summary Financial Statements.



Adjusted Net Income of Crown Corporations, Agencies and the SUCH Sector¹ for the Fiscal Year Ended March 31, 2016 (Unaudited)

	In Millions					Adjusted Net Income ² \$
	Revenue \$	Expense \$	Net Income \$	Adjustments \$	Dividends \$	
Taxpayer-supported (Government Organizations)						
BC Games Society.....	3	(3)				
BC Immigrant Investment Fund Ltd.....	23	(14)	9	(1)		8
British Columbia Innovation Council.....	12	(12)		(3)		(3)
BCNET.....	12	(12)		6		6
B.C. Pavilion Corporation ³	122	(126)	(4)	(21)		(25)
BC Transportation Financing Authority.....	765	(1,053)	(288)	(132)	4	(416)
British Columbia Assessment Authority.....	92	(92)				
British Columbia Housing Management Commission.....	636	(636)		4		4
British Columbia Public School Employers' Association.....	4	(4)				
British Columbia Securities Commission.....	48	(47)	1			1
British Columbia Transit.....	293	(358)	(65)	(16)		(81)
Canadian Blood Services.....	168	(168)		(5)		(5)
Columbia Basin Trust.....	14	(38)	(24)		28	4
Community Living British Columbia.....	854	(854)		(3)		(3)
Community Social Services Employers' Association of British Columbia.....	3	(3)				
Creston Valley Wildlife Management Authority Trust Fund.....	1	(1)				
Crown Corporations Employers' Association.....						
Destination BC Corp.....	54	(54)		(1)		(1)
First Peoples' Heritage, Language and Culture Council.....	4	(4)				
Forestry Innovation Investment Ltd.....	21	(21)				

Adjusted Net Income of Crown Corporations, Agencies and the SUCH Sector¹ for the Fiscal Year Ended March 31, 2016—Continued (Unaudited)

	In Millions					
	Revenue	Expense	Net Income	Adjustments	Dividends	Adjusted Net Income ²
	\$	\$	\$	\$	\$	\$
Taxpayer-supported (Government Organizations)						
—Continued						
Health Employers Association of British Columbia.....	17	(17)				
Industry Training Authority.....	107	(106)	1	(4)		(3)
Knowledge Network Corporation.....	14	(12)	2	(1)		1
Legal Services Society.....	80	(80)				
Nechako–Kitamaat Development Fund Society.....	1		1			1
Oil and Gas Commission.....	51	(49)	2			2
Organized Crime Agency of British Columbia Society.....	7	(7)				
Partnerships British Columbia Inc.....	8	(7)	1			1
Post–Secondary Employers' Association.....	1	(1)				
Private Career Training Institutions Agency.....	5	(4)	1	(1)		
Provincial Rental Housing Corporation.....	114	(52)	62	(2)		60
Rapid Transit Project 2000 Ltd.....	3	(56)	(53)	(3)		(56)
The British Columbia Council for International Education.....	2	(2)				
The Royal British Columbia Museum Corporation.....	20	(20)				
	3,559	(3,913)	(354)	(183)	32	(505)
Taxpayer-supported Crown corporations and agencies.....						
SUCH Sector						
School Districts.....	6,001	(5,922)	79	75		154
Universities.....	4,406	(4,237)	169	79	25	273
Colleges and Institutes.....	1,179	(1,169)	10	25		35
Health Authorities.....	13,770	(13,512)	258	63		321
Hospital Societies.....	1,065	(1,066)	(1)	13		12
SUCH sector.....	26,421	(25,906)	515	255	25	795
Net impact of taxpayer-supported Crown corporations, agencies and SUCH sector.....	29,980	(29,819)	161	72	57	290

Adjusted Net Income of Crown Corporations, Agencies and the SUCH Sector¹ for the Fiscal Year Ended March 31, 2016—Continued (Unaudited)

	In Millions				
	Revenue	Expense	Net Income	Adjustments	Adjusted Net Income ²
	\$	\$	\$	\$	\$
Self-supported (Government Enterprises)					
British Columbia Hydro and Power Authority.....	5,657	(5,002)	655		328
British Columbia Liquor Distribution Branch.....	3,167	(2,136)	1,031		(1,031)
British Columbia Lottery Corporation.....	3,102	(1,798)	1,304		1
Columbia Power Corporation.....	64	(22)	42		40
Insurance Corporation of British Columbia ³	5,361	(5,654)	(293)		(431)
Transportation Investment Corporation.....	136	(218)	(82)		(82)
Sub-total.....	17,487	(14,830)	2,657	0	(144)
British Columbia Railway Company ⁴	23	(17)	6		2
Columbia Basin Trust joint ventures ⁵	71	(36)	35		7
Great Northern Way Campus Trust ⁶	8	(7)	1		(1)
Heritage Realty Properties Ltd ⁷	7	(7)			
SFU Community Trust.....	2	(3)	(1)		(1)
UBC Properties Investments Ltd.....	48	(45)	3		(21)
Vancouver Island Technology Park Trust ⁷	6	(5)	1		(1)
Miscellaneous.....	5	(5)			2
Sub-total.....	170	(125)	45	0	(12)
Net impact of self-supported Crown corporations and agencies.....	17,657	(14,955)	2,702	0	(156)

¹This schedule does not include elimination entries between entities.

²Adjusted Net Income includes the effect of contributions paid to the Consolidated Revenue Fund to indicate the impacts that the Crown corporations and agencies and the SUCH sector have made on the Consolidated Revenue Fund operating result. The Adjusted Net Income of Crown corporations and agencies and the SUCH sector combined with the Consolidated Revenue Fund operating result, after elimination entries between entities, make up the Summary Financial Statements surplus (deficit).

³The revenues and expenses reported for the British Columbia Assessment Authority and Insurance Corporation of British Columbia include a stub period reversal of January–March 2015 and an inclusion of the stub period of January–March 2016.

⁴Subsidiary of B.C. Transportation Financing Authority.

⁵Brilliant Power Corporation, Brilliant Expansion Power Corporation, Arrow Lakes Power Corporation, and Waneta Expansion Power Corporation, co-owned with Columbia Power Corporation.

⁶Subsidiary owned 25% each by Emily Carr University of Art & Design, British Columbia Institute of Technology, The University of British Columbia, and Simon Fraser University.

⁷Subsidiaries of the University of Victoria.

SUCH ¹ Statement of Financial Position as at March 31, 2016 (Unaudited)

	In Millions					
	Health Authorities & Hospital Societies ²		Colleges and Institutes		School Districts	
	\$	\$	\$	\$	\$	\$
Financial Assets						
Cash and cash equivalents.....	1,791	397	259	1,344	3,791	3,160
Temporary investments.....	35	72	32	25	164	187
Accounts receivable.....	349	207	22	57	635	444
Inventories for resale.....	17	20	9	2	48	44
Due from Crown corporations, agencies and trust funds.....	213	18	16	5	252	274
Due from other governments.....	35	2	9	1	47	72
Due from self-supported Crown corporations and agencies.....		28			28	77
Equity in self-supported Crown corporations and agencies.....		58	16	1	75	65
Loans, advances and mortgages receivable.....	5	32			37	45
Other investments.....	19	1,749	69	81	1,918	1,978
Sinking fund investments.....		32	7		39	35
Financial assets before accounting adjustments.....	2,464	2,615	439	1,516	7,034	6,381
Policy accounting adjustments.....	(10)	(317)	(4)	50	(281)	(463)
Financial assets.....	2,454	2,298	435	1,566	6,753	5,918

SUCH¹ Statement of Financial Position as at March 31, 2016—Continued (Unaudited)

	In Millions					
	Health Authorities & Hospital Societies ²	Universities	Colleges and Institutes	School Districts	2016 Total	2015 Total
	\$	\$	\$	\$	\$	\$
Liabilities						
Accounts payable and accrued liabilities.....	1,094	370	130	395	1,989	1,845
Employee future benefits.....	1,179	181	79	229	1,668	1,526
Due to other governments.....	25	6	3		34	29
Due to Crown corporations, agencies and trust funds.....	18	2	4	1	25	121
Deferred revenue.....	6,020	4,799	1,049	5,639	17,507	17,028
Taxpayer-supported debt.....	1,583	667	109	21	2,380	2,207
Liabilities before accounting adjustments.....	9,919	6,025	1,374	6,285	23,603	22,756
Policy accounting adjustments.....	(4,180)	(2,430)	(811)	(5,223)	(12,644)	(12,565)
Liabilities.....	5,739	3,595	563	1,062	10,959	10,191
Net liabilities.....	(3,285)	(1,297)	(128)	504	(4,206)	(4,273)
Non-financial Assets						
Tangible capital assets.....	7,245	5,693	1,267	7,309	21,514	20,712
Restricted assets.....	5	1,568	38	2	1,613	1,577
Prepaid program costs.....	235	41	6	10	292	269
Other assets.....		1			1	203
Non-financial assets before accounting adjustments.....	7,485	7,303	1,311	7,321	23,420	22,761
Policy accounting adjustments.....	(170)	25	(8)		(153)	(200)
Non-financial assets.....	7,315	7,328	1,303	7,321	23,267	22,561
Accumulated surplus (deficit).....	4,030	6,031	1,175	7,825	19,061	18,288

¹School districts, universities, colleges, institutes, and health organizations.

²These numbers include inter-entity eliminations between Health Authorities and Hospital Societies.

SUCH ¹ Statement of Operations for the Fiscal Year Ended March 31, 2016 (Unaudited)

	In Millions				
	Health Authorities & Hospital Societies ²	Universities	Colleges and Institutes	School Districts	2015 Total
Revenue	\$	\$	\$	\$	\$
Contributions from the federal government.....	27	477	18	13	531
Fees and licenses.....	374	1,293	373	229	2,106
Contributions from the provincial government/Crown corporations and agencies.....	12,864	1,599	662	5,374	19,588
Miscellaneous.....	711	874	116	367	1,626
Investment income.....	14	168	10	18	178
Total revenue.....	13,990	4,411	1,179	6,001	24,029
Expense					
Salaries and benefits.....	7,334	2,664	807	4,786	14,602
Government transfers.....		216	12	228	202
Operating costs.....	5,697	860	216	843	7,306
Interest.....	94	35	4	1	131
Amortization.....	517	343	82	282	1,258
Other.....	91	119	48	10	263
Total operating expense.....	13,733	4,237	1,169	5,922	23,762
Surplus (deficit) for the year before accounting adjustments.....	257	174	10	79	267
Policy accounting adjustments.....	76	79	25	75	448
Surplus (deficit) for the year.....	333	253	35	154	715

¹School districts, universities, colleges, institutes, and health organizations.

²These numbers include inter-entire eliminations between Health Authorities and Hospital Societies.

Summary Financial Statements

Consolidated Staff Utilization

for the Fiscal Year Ended March 31, 2016¹

(Unaudited)

				Variance	
	2015/16	2015/16	2014/15	2015/16	2015/16
	Budget ²	Actual	Actual	Actual	vs
				To Budget	2014/15
Consolidated Revenue Fund ³	26,500	27,192	26,679	692	513
Taxpayer-supported Crown corporations and agencies ⁴	4,821	4,803	4,798	(18)	5
Total staff utilization	31,321	31,995	31,477	674	518

The table above provides a summary of full-time equivalent (FTE) employment.

¹Staff utilization is the full-time equivalent of the number of persons employed in the fiscal year whose salaries are paid by taxpayer-supported entities within the Summary Financial Statements.

²The budget figures do not include any provisions for the SUCH entities or for the self-supported Crown corporations and agencies.

³See the unaudited Consolidated Revenue Fund schedules at www.fin.gov.bc.ca/pubs.htm for details outside these financial statements.

⁴See Financial Statements of Government Organizations and Enterprises at www.fin.gov.bc.ca/pubs.htm for details outside these financial statements.

Consolidated Revenue Fund Extracts (Unaudited)

The following unaudited Consolidated Revenue Fund Extracts are intended to provide additional information to financial statement readers and includes details of the Consolidated Revenue Fund.

The purpose of this information is to reflect management accountability including appropriation control.

The accounting policies applied for this unaudited information are different in some cases from the generally accepted accounting principles followed for the audited Summary Financial Statements. For example, in order to reflect different management accountabilities, the Consolidated Revenue Fund nets recoveries against expenses, nets sinking funds against debt and nets sinking fund earnings against interest expense.



Consolidated Revenue Fund¹
Statement of Financial Position
as at March 31, 2016
(Unaudited)

	In Millions	
	2016	2015
	\$	\$
Financial Assets		
Cash and cash equivalents.....	1,361	1,371
Accounts receivable.....	3,073	2,938
Inventories for resale.....	33	31
Due from other governments.....	819	779
Due from Crown corporations and agencies.....	615	636
Investments in Crown corporations and agencies.....	594	594
Loans, advances and mortgages receivable.....	1,707	1,631
Other investments.....	339	337
Loans for purchase of assets, recoverable from agencies.....	30,638	28,481
	<u>39,179</u>	<u>36,798</u>
Liabilities		
Accounts payable and accrued liabilities.....	3,526	3,214
Employee future benefits.....	316	316
Due to other governments.....	381	677
Due to Crown corporations, agencies and trust funds.....	2,356	2,016
Deferred revenue.....	2,223	2,859
Employee pension plans.....	246	261
Taxpayer-supported debt.....	39,028	38,328
Self-supported debt.....	21,753	20,310
	<u>69,829</u>	<u>67,981</u>
Net assets (liabilities).....	<u>(30,650)</u>	<u>(31,183)</u>
Non-financial Assets		
Tangible capital assets.....	2,627	2,551
Prepaid program costs.....	522	524
Other assets.....	55	66
	<u>3,204</u>	<u>3,141</u>
Accumulated operating result.....	<u>(27,446)</u>	<u>(28,042)</u>

¹The Consolidated Revenue Fund includes the General Fund and the BC Prosperity Fund.

Consolidated Revenue Fund¹
Statement of Operations
for the Fiscal Year Ended March 31, 2016
(Unaudited)

	In Millions		
	2016		2015
	Estimated ²	Actual	Actual
	\$	\$	\$
Revenue			
Taxation.....	22,448	23,638	22,390
Contributions from the federal government.....	6,286	6,300	5,992
Other revenue.....	3,386	3,398	3,257
Dividends.....	2,407	2,551	2,340
Natural resources.....	2,599	2,426	2,783
	<u>37,126</u>	<u>38,313</u>	<u>36,762</u>
Expense			
Health.....	18,230	18,057	17,629
Education.....	8,177	8,138	8,005
Social services.....	3,950	4,032	3,771
Interest ³	1,247	1,400	1,181
Natural resources and economic development.....	1,535	2,166	1,810
Transportation.....	788	788	778
Other.....	1,045	721	722
Protection of persons and property.....	1,236	1,350	1,246
General government.....	955	1,065	916
	<u>37,163</u>	<u>37,717</u>	<u>36,058</u>
Operating result for the year before unusual items.....	(37)	596	704
Liquidation dividends.....			40
Operating result for the year.....	<u>(37)</u>	596	744
Accumulated operating result —beginning of year.....		(28,042)	(28,786)
Accumulated operating result —end of year.....		<u>(27,446)</u>	<u>(28,042)</u>

¹The Consolidated Revenue Fund includes the General Fund and the BC Prosperity Fund.

²The estimated amount consists of the Main Estimates presented to the Legislative Assembly on February 17, 2015. It does not include other authorizations granted under statutory authority of \$798 million (2015: \$410 million).

³Interest expense does not include the following: interest of \$1,184 million (2015: \$1,124 million) on cost of borrowing for relending to government bodies; interest of \$30 million (2015: \$21 million) funded by sinking fund earnings. These amounts are not included because the interest expense and recovery are offsetting.

General Fund
Statement of Financial Position
as at March 31, 2016
(Unaudited)

	In Millions	
	2016	2015
	\$	\$
Financial Assets		
Cash and cash equivalents.....	1,361	1,371
Accounts receivable.....	3,073	2,938
Inventories for resale.....	33	31
Due from other governments.....	819	779
Due from Crown corporations and agencies.....	615	636
Investments in Crown corporations and agencies.....	594	594
Loans, advances and mortgages receivable.....	1,707	1,631
Other investments.....	339	337
Loans for purchase of assets, recoverable from agencies.....	30,638	28,481
	<u>39,179</u>	<u>36,798</u>
Liabilities		
Accounts payable and accrued liabilities.....	3,526	3,214
Employee future benefits.....	316	316
Due to other governments.....	381	677
Due to Crown corporations, agencies and trust funds.....	2,456	2,016
Deferred revenue.....	2,223	2,859
Employee pension plans.....	246	261
Taxpayer-supported debt	39,028	38,328
Self-supported debt.....	21,753	20,310
	<u>69,929</u>	<u>67,981</u>
Net assets (liabilities).....	<u>(30,750)</u>	<u>(31,183)</u>
Non-financial Assets		
Tangible capital assets.....	2,627	2,551
Prepaid program costs.....	522	524
Other assets.....	55	66
	<u>3,204</u>	<u>3,141</u>
Accumulated operating result.....	<u>(27,546)</u>	<u>(28,042)</u>

General Fund
Statement of Operations
for the Fiscal Year Ended March 31, 2016
(Unaudited)

	In Millions		
	2016		2015
	Estimates	Actual	Actual
	\$	\$	\$
Revenue			
Taxation	22,448	23,638	22,390
Contributions from the federal government.....	6,286	6,300	5,992
Other revenue.....	3,386	3,398	3,257
Dividends	2,407	2,551	2,340
Natural resources.....	2,599	2,426	2,783
	<u>37,126</u>	<u>38,313</u>	<u>36,762</u>
Expense			
Health	18,230	18,057	17,629
Education	8,177	8,138	8,005
Social services.....	3,950	4,032	3,771
Interest	1,247	1,400	1,181
Natural resources and economic development.....	1,535	2,166	1,810
Transportation	788	788	778
Other	1,045	721	722
Protection of persons and property.....	1,236	1,350	1,246
General government.....	955	1,165	916
	<u>37,163</u>	<u>37,817</u>	<u>36,058</u>
Operating result for the year before unusual items.....	(37)	496	704
Liquidation dividend.....			40
Operating result for the year.....	<u>(37)</u>	496	744
Accumulated operating result opening balance.....		<u>(28,042)</u>	<u>(28,786)</u>
Accumulated operating result ending balance.....		<u>(27,546)</u>	<u>(28,042)</u>

BC Prosperity Fund
Statement of Financial Position
as at March 31, 2016
(Unaudited)

	In Millions	
	2016	2015
	\$	\$
Financial Assets		
Due from general fund.....	100	
	100	0
Liabilities		
	0	0
Net assets (liabilities).....	100	0
Non-financial Assets		
	0	0
Accumulated operating result.....	100	0

BC Prosperity Fund
Statement of Operations
for the Fiscal Year Ended March 31, 2016
(Unaudited)

	In Millions		
	2016	2015	
	Estimates	Actual	Actual
	\$	\$	\$
Revenue			
Inter-fund transfer		100	
	0	100	0
Expense			
	0	0	0
Operating result for the year before unusual items.....	0	100	0
Operating result for the year.....	0	100	0
Accumulated operating result opening balance.....		0	0
Accumulated operating result ending balance.....		100	0

Consolidated Revenue Fund
Statement of Cash Flow
for the Fiscal Year Ended March 31, 2016
(Unaudited)

	In Millions			2015
	2016			
	Receipts	Disbursements	Net	Net
	\$	\$	\$	\$
Operating Transactions				
Operating result for the year.....			596	744
Non-cash items included in surplus (deficit):				
Amortization of tangible capital assets.....			208	198
Amortization of public debt deferred revenue and deferred charges...			99	(366)
Concessionary loan adjustments (decreases).....			(11)	(12)
(Gain) or loss on sale of tangible capital assets.....			(24)	(65)
Valuation adjustments.....			28	33
Accounts receivable (increases) decreases.....			(137)	127
Due from other governments (increases).....			(40)	(85)
Due from self-supported Crown corporations and agencies decreases...			21	165
Accounts payable increases.....			312	6
Employee future benefits increases.....				12
Due to other governments (decreases).....			(296)	(332)
Due to Crown corporations, agencies and funds increases.....			340	537
Employee pension plan (decreases) increases.....			(15)	47
Items applicable to future operations (decreases).....			(620)	(454)
Cash derived from operations.....			461	555
Capital Transactions				
Tangible capital assets dispositions (acquisitions).....	29	(290)	(261)	(259)
Cash (used for) capital.....	29	(290)	(261)	(259)
Investment Transactions				
Loans, advances and mortgages receivable issues.....	228	(318)	(90)	(113)
Other investments—net (increases) decreases.....	13	(15)	(2)	304
Cash (used for) derived from investments.....	241	(333)	(92)	191
Total cash inflows.....			108	487

Consolidated Revenue Fund
Statement of Cash Flow
for the Fiscal Year Ended March 31, 2016—Continued
(Unaudited)

	In Millions			2015
	2016			
	Receipts	Disbursements	Net	Net
	\$	\$	\$	\$
Total cash inflows carried forward from previous page.....			108	487
Financing Transactions¹				
Public debt increases.....	31,041	(28,995)	2,046	2,382
(Used for) purchase of assets, recoverable from agencies.....	13,517	(15,681)	(2,164)	(1,747)
Cash (used for) derived from financing.....	44,558	(44,676)	(118)	635
(Decrease) increase in cash and cash equivalents.....			(10)	1,122
Cash and cash equivalents—beginning of year.....			1,371	249
Cash and cash equivalents—end of year.....			1,361	1,371
Cash and cash equivalents are made up of:				
Cash.....			1,289	1,300
Cash equivalents.....			72	71
			1,361	1,371

¹Financing transaction receipts are from debt issues and disbursements are for debt repayments.

Consolidated Revenue Fund
Schedule of Net Revenue by Source
for the Fiscal Year Ended March 31, 2016
(Unaudited)

	In Millions		
	2016		2015
	Estimated	Actual	Actual
	\$	\$	\$
Taxation Revenue			
Personal income.....	7,948	8,380	8,076
Provincial sales.....	5,963	6,038	5,831
Harmonized sales.....		(54)	(91)
Corporate income.....	2,630	2,787	2,635
Property.....	2,054	2,063	1,994
Carbon.....	1,261	1,190	1,198
Property transfer.....	928	1,533	1,065
Tobacco.....	770	733	752
Fuel.....	509	520	511
Other.....	460	520	490
Commissions on collection of public funds.....	(67)	(64)	(63)
Valuation adjustments.....	(8)	(8)	(8)
Total taxation revenue.....	22,448	23,638	22,390
Contributions from the Federal Government			
Canada health and social transfers.....	6,142	6,149	5,827
Other contributions.....	144	151	165
Total contributions from the federal government.....	6,286	6,300	5,992
Other Revenue			
Medical Services Plan premiums.....	2,314	2,354	2,151
Motor vehicle licences and permits.....	516	521	499
Other fees and licences.....	382	399	353
Investment earnings.....	74	63	96
Miscellaneous.....	234	219	257
Asset dispositions.....	31	24	65
Commissions on collection of public funds.....	(7)	(8)	(7)
Valuation adjustments.....	(158)	(174)	(157)
Total other revenue.....	3,386	3,398	3,257
Dividends			
Self-supported Crown corporations			
British Columbia Hydro and Power Authority.....	375	326	264
British Columbia Liquor Distribution Branch.....	881	1,031	935
British Columbia Lottery Corporation.....	957	1,054	996
Columbia Power Corporation.....	29	2	2
Insurance Corporation of British Columbia.....	160	138	139
Other.....	5		4
Total dividends.....	2,407	2,551	2,340

Consolidated Revenue Fund

Schedule of Net Revenue by Source

for the Fiscal Year Ended March 31, 2016—Continued

(Unaudited)

	In Millions		2015 Actual
	2016 Estimated	Actual	
Natural Resource Revenue			
Petroleum, natural gas and minerals.....	1,274	1,076	1,531
Forests.....	810	842	728
Water and other.....	522	515	529
Commissions on collection of public funds.....	(1)	(1)	(1)
Valuation adjustments.....	(6)	(6)	(4)
Total natural resource revenue.....	2,599	2,426	2,783
Net Consolidated Revenue Fund Revenue	37,126	38,313	36,762
Liquidation Dividends			40
Revenue Collected for and Transferred to Crown Corporations, Agencies and Other Entities			
Ministry of Energy and Mines			
Northwest Transmission Line.....			(13)
Ministry of Finance			
British Columbia Transit.....	(12)	(12)	(12)
BC Transportation Financing Authority.....	(419)	(447)	(423)
Cowichan Tribes.....	(3)	(3)	(3)
Municipalities or Eligible Entities.....	(36)	(44)	(35)
Rural Areas.....	(320)	(330)	(313)
South Coast British Columbia Transportation Authority.....	(346)	(376)	(325)
Ministry of Forests, Lands and Natural Resource Operations			
Habitat Conservation Trust.....	(6)	(7)	(7)
Ministry of Natural Gas Development			
Oil and Gas Commission.....	(30)	(34)	(33)
Total	(1,172)	(1,253)	(1,164)

¹Personal income tax and corporate income tax revenues are recorded after deductions for non-refundable tax credits. Deductions allowable in the calculation of personal income tax revenue were \$89 million (2015: \$67 million) and corporate income tax were \$89 million (2015: \$103 million). The types of tax credits adjusting personal income tax and corporation income tax revenues are for foreign taxes, logging taxes, venture capital, scientific and experimental development tax, and mining flow-through share.

Personal income tax revenue was also reduced by \$147 million (2015: \$135 million) for the BC Tax Reduction.

Personal and corporate income tax refunds may be issued under the *International Business Activity Act*. Corporate income tax refunds were \$21 million (2015: \$21 million).

Property tax revenue was recorded net of home owner grants of \$789 million (2015: \$794 million).

²Oil and gas royalty revenues are reported after adjustments for various royalty deduction programs such as producer cost of service allowances, deep well, marginal, ultra marginal, low production, net profit, new pool discovery and road construction. Deductions allowable in the calculation of royalties revenue were \$348 million (2015: \$850 million). Natural resource revenue includes mining taxes of \$103 million (2015: \$90 million), and logging taxes of \$38 million (2015: \$39 million).

The province offers credits for certain costs incurred by producers including the deep well, road and summer drilling programs. Deep well credits of \$1,918 million (2015: \$1,398 million), road credits of \$29 million (2015: \$11 million) and summer drilling credits of \$3 million (2015: \$3 million) have been incurred by producers and will reduce future natural gas royalties payable when wells go into production.

³The revenue collected for and transferred to Crown corporations, agencies and other entities has not been included in the Consolidated Revenue Fund.

Consolidated Revenue Fund
Schedule of Comparison of Estimated Expenses to Actual Expenses
for the Fiscal Year Ended March 31, 2016
(Unaudited)

	In Thousands			Actual
	Estimated	Other Authorizations	Total	
	\$	\$	\$	\$
Special Offices, Ministries and Other Appropriations				
Legislation.....	69,565		69,565	64,014
Officers of the Legislature.....	52,387	3,415	55,802	54,018
Office of the Premier.....	9,028		9,028	8,719
Aboriginal Relations and Reconciliation.....	86,883	75,967	162,850	161,651
Advanced Education.....	1,960,606	32	1,960,638	1,959,271
Agriculture.....	80,229	1,806	82,035	81,466
Children and Family Development.....	1,378,927	4,044	1,382,971	1,381,738
Community, Sport and Cultural Development.....	228,470	22,690	251,160	248,705
Education.....	5,498,443	83,096	5,581,539	5,580,068
Energy and Mines.....	27,825	23,192	51,017	50,974
Environment.....	150,467	8,898	159,365	158,841
Finance.....	219,893	27,291	247,184	217,791
Forests, Lands and Natural Resource Operations.....	608,287	315,057	923,344	918,826
Health.....	17,444,433		17,444,433	17,424,308
International Trade.....	48,521	683	49,204	49,177
Jobs, Tourism and Skills Training.....	198,860	23,570	222,430	222,299
Justice.....	1,172,381	(675,010)	497,371	488,070
Natural Gas Development.....	444,265	898	445,163	443,675
Public Safety and Solicitor General.....		675,786	675,786	685,534
Small Business and Red Tape Reduction.....		2,914	2,914	2,838
Social Development and Social Innovation.....	2,593,575	23,281	2,616,856	2,616,738
Technology, Innovation and Citizens' Services.....	492,889	(139)	492,750	490,463
Transportation and Infrastructure.....	813,473	107,486	920,959	919,365
Management of Public Funds and Debt.....	1,246,645	148,390	1,395,035	1,400,062
Contingencies (All Ministries) and New Programs ¹	350,000	(241,012)	108,988	108,988
Capital Funding.....	1,001,447		1,001,447	830,994
Commissions on Collection of Public Funds.....	1		1	
Allowances for Doubtful Revenue Accounts.....	1		1	
Tax Transfers.....	975,000	165,218	1,140,218	1,140,218
Auditor General for Local Government.....	2,600		2,600	2,269
Electoral Boundaries Commission.....	2,000		2,000	522
Environmental Appeal Board and Forest Appeals Commission.....	2,081		2,081	1,757
Forest Practices Board.....	3,818		3,818	3,788
Total expense.....	37,163,000	797,553	37,960,553	37,717,147

Consolidated Revenue Fund
Schedule of Comparison of Estimated Expenses to Actual Expenses
for the Fiscal Year Ended March 31, 2016—Continued
(Unaudited)

Summary of Appropriations	In Thousands			
	Estimated	Other Authorizations	Total	Actual
	\$	\$	\$	\$
Voted expense.....	36,749,151	716,524	37,465,675	37,221,353
Statutory				
Various Acts.....		155,122	155,122	155,122
Special Accounts.....	451,226	230,033	681,259	677,168
Inter-account transfers.....	(37,377)	(204,126)	(241,503)	(236,496)
Inter-fund transfers.....		(100,000)	(100,000)	(100,000)
Total expense by appropriation 2015/16.....	<u>37,163,000</u>	<u>797,553</u>	<u>37,960,553</u>	<u>37,717,147</u>
Total expense by appropriation 2014/15.....	<u>36,140,000</u>	<u>410,337</u>	<u>36,550,337</u>	<u>36,057,697</u>

¹Some of the budget for contingencies has been reallocated to ministries with approved access.

Consolidated Revenue Fund
Schedule of Financing Transaction Disbursements
for the Fiscal Year Ended March 31, 2016
(Unaudited)

	In Thousands			Actual
	Estimated	Other	Total	
	\$	\$	\$	\$
Special Offices, Ministries and Other Appropriations				
All Ministries.....		166,967	166,967	166,967
Legislation.....	2,830		2,830	1,560
Officers of the Legislature.....	1,035		1,035	710
Office of the Premier.....	1		1	
Aboriginal Relations and Reconciliation.....	1	1,799	1,800	1,800
Advanced Education.....	504		504	413
Agriculture.....	834		834	811
Children and Family Development.....	2,379		2,379	1,865
Community, Sport and Cultural Development.....	1,288		1,288	74
Education.....	916		916	245
Energy and Mines.....	556		556	496
Environment.....	33,838		33,838	32,916
Finance.....	1,488,948	85,889	1,574,837	1,551,007
Forests, Lands and Natural Resource Operations.....	147,358	20,593	167,951	155,301
Health.....	5,597		5,597	1,293
International Trade.....	1		1	
Jobs, Tourism and Skills Training.....	1,867	991	2,858	2,858
Justice.....	16,124	(9,253)	6,871	3,105
Natural Gas Development.....	29,741	3,868	33,609	33,608
Public Safety and Solicitor General.....		9,253	9,253	3,082
Small Business and Red Tape Reduction.....				
Social Development and Social Innovation.....	2,938		2,938	340
Technology, Innovation and Citizens' Services.....	196,073		196,073	175,975
Transportation and Infrastructure.....	5,274		5,274	4,219
Contingencies (All Ministries) and New Programs.....	86,640	(22,839)	63,801	
Total financing transaction disbursements.....	2,024,743	257,268	2,282,011	2,138,645
Summary of Appropriations				
Loans, investments and other requirements.....	461,258	183,529	644,787	596,556
Revenue collected for, and transferred to, other entities..	1,171,617	73,739	1,245,356	1,252,262
Capital expenditures.....	391,868		391,868	289,827
Total financing transactions by appropriation.....	2,024,743	257,268	2,282,011	2,138,645

Consolidated Revenue Fund
Schedule of Write-offs, Extinguishments and Remissions
for the Fiscal Year Ended March 31, 2016
(Unaudited)

	In Millions		
	Assets, Debts and Obligations Written Off \$	Debts and Obligations Extinguished \$	Remissions Made \$
Ministry			
Ministry of Advanced Education.....		37	
Ministry of Children and Family Development.....		4	
Ministry of Finance.....	58	41	
Ministry of Forests, Lands and Natural Resource Operations.....	1	1	
Ministry of Health.....	2		
Ministry of Justice.....	1		
Ministry of Public Safety and Solicitor General.....	7		
Ministry of Social Development and Social Innovation.....	3	10	
Total 2015/16.....	72	93	0
Total 2014/15.....	50	136	0

This statement includes amounts authorized by sections 17, 18 and 19 of the *Financial Administration Act*. Amounts authorized for write-off, forgiveness or remission by other statutes are not shown separately in these financial statements.

This schedule is produced as required under Section 9(2)(d)(ii),(iii) and (iv) of the *Budget Transparency and Accountability Act*.

Provincial Debt Summary (Unaudited)

The following unaudited Provincial Debt Summary information is intended to provide additional information to financial statement readers.

The accounting policies applied for this unaudited information are different in some cases from the generally accepted accounting principles followed for the audited Summary Financial Statements. The Provincial Debt Summary figures include guaranteed debt in the calculation of total debt and calculate debt, interest costs and revenue as if the modified equity enterprises were consolidated on a line-by-line basis.



Overview of Provincial Debt (Unaudited)

The provincial government, its Crown corporations, agencies and government organizations incur debt to fund operations and finance capital projects.

Provincial debt is reported using two basic classifications: (1) taxpayer-supported debt; and (2) self-supported debt.

Taxpayer-supported Debt—includes government direct debt, which is incurred for government operating and capital purposes, the debt of Crown corporations and agencies, school districts, universities, colleges, institutes and health organizations that require operating or debt service subsidies from the provincial government and are fully consolidated in the Summary Financial Statements. The BC Transportation Financing Authority is an example of a taxpayer-supported Crown corporation.

Self-supported Debt—includes the debt of commercial Crown corporations and agencies as well as the Warehouse Borrowing Program. Commercial Crown corporations and agencies generate sufficient revenues to cover interest costs and repay principal and may pay dividends to the province. The British Columbia Hydro and Power Authority is an example of a commercial Crown corporation. The Warehouse Borrowing Program takes advantage of borrowing opportunities in advance of requirements. Eventually, this debt is allocated to the province or Crown corporations and agencies. In the interim, the funds are invested at market rates.

The *Finance Statutes (Deficit Authorization and Debt Elimination) Amendment Act, 2009* requires that effective April 1, 2013, any increase in cash and cash equivalents in the Consolidated Revenue Fund must be applied to reduce or eliminate any provincial government direct operating debt. Supplementary estimates may not be presented to the Legislative Assembly if the most recent quarterly report includes a forecast that there will be provincial government direct operating debt at the end of the fiscal year to which the quarterly report applies.

The following provincial debt summary provides additional detailed information and related key indicators and benchmarks to allow a more informed assessment of the debt totals. A reconciliation is also provided to explain the differences between the Summary of Provincial Debt and the Summary Financial Statements.

The total provincial net debt as at March 31, 2016 was \$65,292 million, which consists of \$66,052 million in the Summary Financial Statements in addition to \$802 million of non-guaranteed debt and \$18 million of guaranteed debt less \$1,580 million of sinking fund investments.

Provincial Debt as at March 31, 2016 (Unaudited)

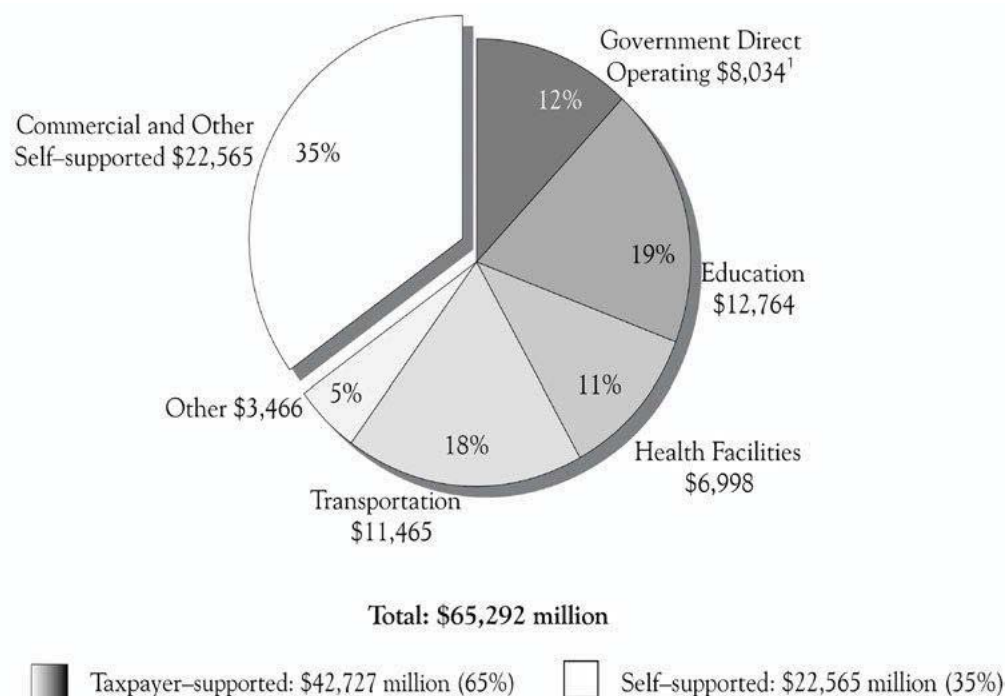
The accumulated provincial net debt of \$65,292 million has been incurred for various purposes as shown in Chart 1 below. Over the years, the proceeds from borrowing have contributed to economic development in the province and have provided resources to deliver health, education and social programs, and transportation infrastructure.

At March 31, 2016, taxpayer-supported net debt totalled \$42,727 million including debt incurred for government operating purposes (\$8,034 million), educational facilities (\$12,764 million), health facilities (\$6,998 million), transportation infrastructure (\$11,465 million), and other debt (\$3,466 million). Other debt is comprised mainly of debt related to social housing, provincial government general capital expenditures, service delivery agencies and various loan guarantee programs.

At March 31, 2016, self-supported debt totalled \$22,565 million including debt of commercial Crown corporations and agencies: British Columbia Hydro and Power Authority (\$17,928 million), the Transportation Investment Corporation (\$3,389 million), Columbia River power projects (\$459 million), Columbia Power Corporation (\$296 million), British Columbia Lottery Corporation (\$150 million), commercial subsidiaries of certain post-secondary institutions (\$310 million), and debt of other government business enterprise (\$33 million).

Chart 1 – Provincial debt as at March 31, 2016

In Millions/Percent of Total



¹Operating debt includes amounts required to finance operating deficits and amounts allocated to fund provincial government general capital expenditures prior to the 2008/09 fiscal year end.

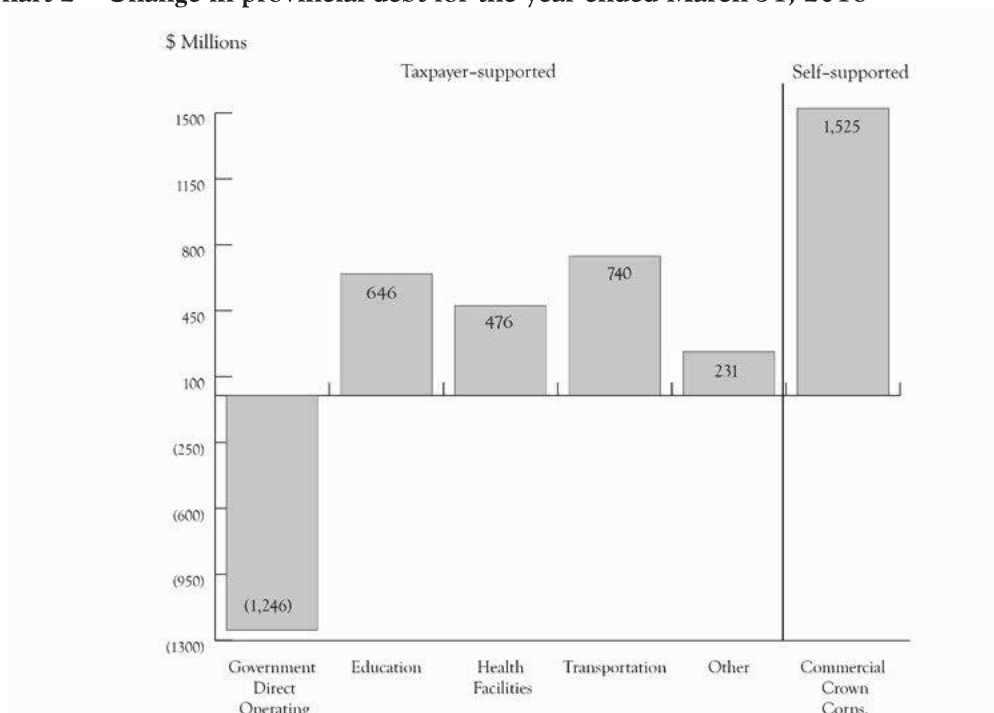
Change in Provincial Debt¹ (Unaudited)

Provincial debt increased by \$2,372 million in 2015/16 when compared to the prior year. This includes an increase in taxpayer-supported debt of \$847 million and an increase in self-supported debt of \$1,525 million. Warehouse Program debt was zero at fiscal year-end. Chart 2 below shows the change in provincial debt for the year ended March 31, 2016.

Taxpayer-supported Debt—Increased by \$847 million due to a \$1,246 million decrease to government direct operating debt, and new capital financing requirements of \$646 million in the education sector, \$476 million in the health sector, \$740 million in the transportation sector, and \$231 million for other taxpayer-supported entities which included \$289 million for provincial government general capital.

Self-supported Debt—Increased by \$1,525 million due to new capital financing requirements of \$1,384 million by BC Hydro and Power Authority, \$88 million by the commercial subsidiaries of certain post-secondary institutions, \$54 million by Transportation Investment Corporation, and \$10 million by British Columbia Lottery Corporation offset by a decrease of \$5 million by Columbia River power projects, \$4 million by Columbia Power Corporation, and \$2 million by other government business enterprises.

Chart 2 – Change in provincial debt for the year ended March 31, 2016



¹Includes gross new borrowings plus changes in sinking fund balances less debt maturities.

**Reconciliation of Summary Financial Statements' Deficit (Surplus)
to Change in Taxpayer-supported Debt and Total Debt
for the Fiscal Year Ended March 31, 2016
(Unaudited)**

	In Millions	
	2016	2015
	\$	\$
(Surplus) for the year.....	(730)	(1,692)
Taxpayer-supported debt decreased by:		
Non-cash expenses included in (surplus).....	(1,990)	(2,183)
Accounts receivable, accounts payable and other working capital net changes.....	396	861
	(1,594)	(1,322)
Taxpayer-supported debt increased by:		
Self-supported Crown corporation and agency (deficit) earnings in excess of contributions to the Consolidated Revenue Fund.....	(74)	738
Tangible capital asset net acquisitions.....	2,975	3,196
Net increases (decreases) in loans, advances and investments.....	270	(108)
	3,171	3,826
Net increase in taxpayer-supported debt.....	847	812
Taxpayer-supported debt—beginning of year.....	41,880	41,068
Taxpayer-supported debt—end of year.....	42,727	41,880
Self-supported debt.....	22,565	21,040
Total debt².....	65,292	62,920

**Reconciliation of Total Debt to Summary Financial Statements' Debt
as at March 31, 2016
(Unaudited)**

	In Millions	
	2016	2015
	\$	\$
Total debt.....	65,292	62,920
Debt included as part of equity in self-supported Crown corporations and agencies.....	(802)	(720)
Contingent liabilities for debt of individuals and organizations that have been guaranteed by the province.....	(18)	(19)
Sinking fund investments.....	1,580	977
Summary Financial Statements' debt.....	66,052	63,158
Comprised of:		
Taxpayer-supported debt.....	44,127	42,693
Self-supported debt.....	21,925	20,465
Summary Financial Statements' debt.....	66,052	63,158

²See Summary of Provincial Debt, page 137.

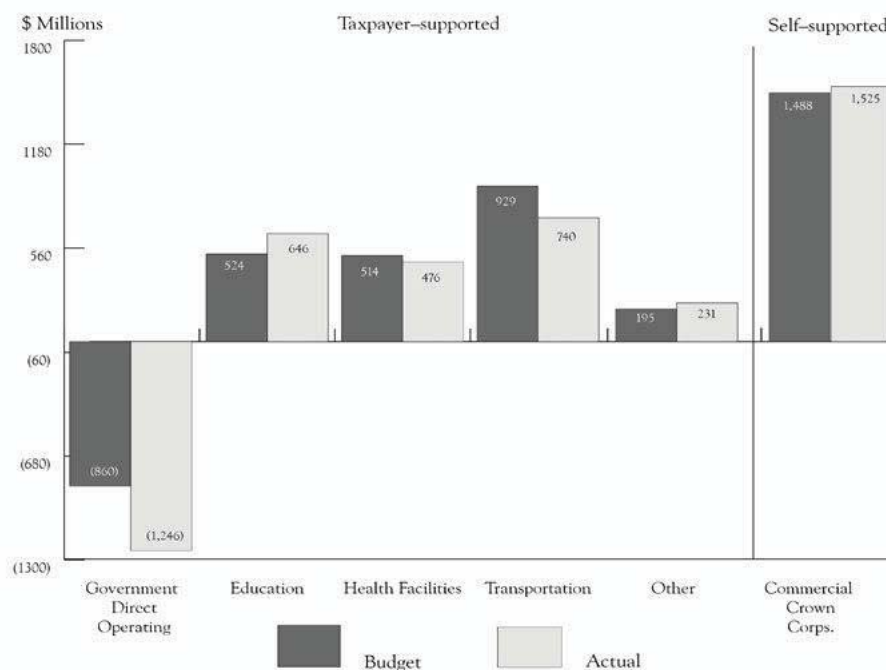
Change in Provincial Debt, Comparison to Budget (Unaudited)

Provincial debt increased by \$2,372 million compared to a budgeted increase of \$3,040 million resulting in a \$668 million improvement over budget net of the \$250 million increase in the forecast allowance. Chart 3 below shows the difference between the actual change in provincial debt and the budgeted change by major category.

Taxpayer-supported debt increased by \$847 million compared to a budgeted increase of \$1,302 million. The \$455 million improvement over budget is due to lower than forecasted borrowing for government operating purposes (\$386 million), health (\$38 million), and transportation (\$189 million) offset by higher than forecasted borrowing for education (\$122 million) and other capital investments (\$36 million).

Self-supported debt increased by \$1,525 million compared to a budgeted increase of \$1,488 million. The \$37 million difference from budget is due to lower than forecasted borrowing for British Columbia Hydro and Power Authority (\$85 million), British Columbia Lottery Corporation (\$5 million), and other government business enterprises (\$8 million) offset by higher than forecasted borrowing for Transportation Investment Corporation (\$18 million), Columbia Power Corporation (\$3 million), Columbia River power projects (\$2 million) and commercial subsidiaries of certain post-secondary institutions (\$112 million).

Chart 3 – Change in provincial debt¹ (actual vs budget) for the year ended March 31, 2016

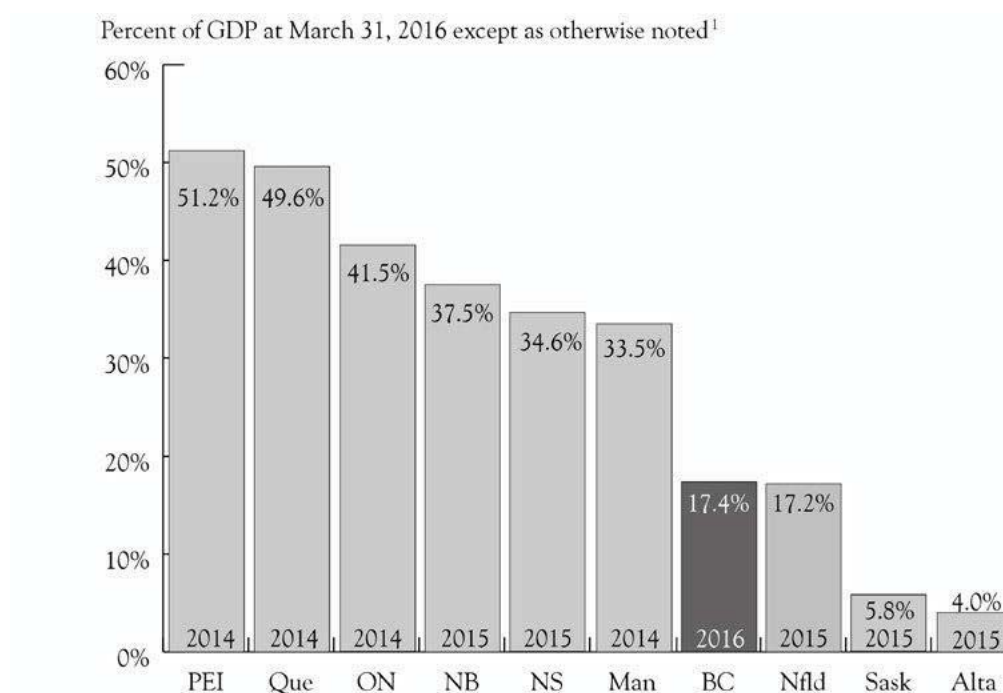


¹The change in forecast allowance is not included in this chart.

Interprovincial Comparison of Taxpayer-supported Debt as a Percentage of Gross Domestic Product (Unaudited)

Chart 4 below shows the ratio of each province's taxpayer-supported debt as a percentage of their gross domestic product (GDP). The ratio of a province's taxpayer-supported debt relative to its GDP highlights the ability of a province to service its debt load. This ratio is often used by investors and credit rating agencies when assessing a province's investment quality. According to the most recent data published by Moody's Investors Service Inc. (Moody's), British Columbia's taxpayer-supported debt ratio is one of the lowest in Canada and this translates into a strong credit rating and relatively low debt servicing costs.

Chart 4 – Interprovincial comparison of taxpayer-supported debt as a percentage of GDP



Source: Moody's Investors Service Inc.

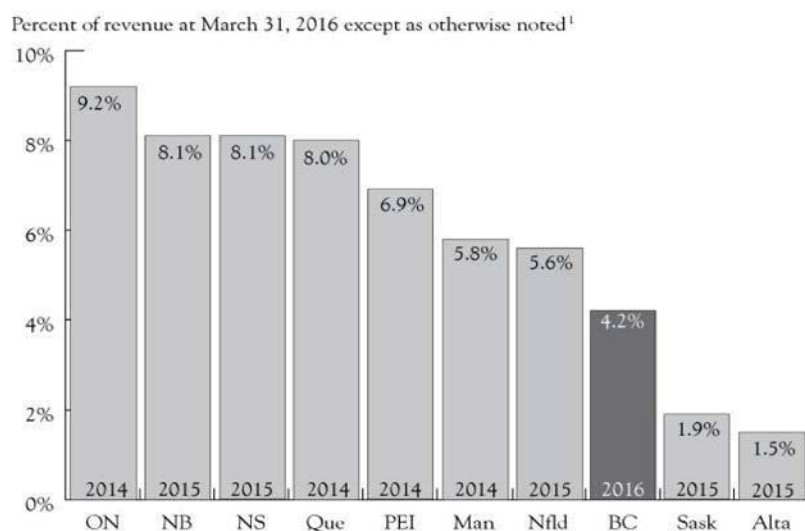
¹Figures for PEI and Manitoba restated to reflect latest Moody's reports.

British Columbia's results as per Ministry of Finance's actuals; Moody's results for British Columbia as at March 31, 2016 are 17.4%.

Interprovincial Comparison of Taxpayer-supported Debt Service Costs as a Percentage of Revenue (Unaudited)

Chart 5 shows the ratio (interest bite) of each province's taxpayer-supported debt servicing costs as a percentage of revenue. The interest bite indicates how much of each dollar of provincial revenue is used to pay for taxpayer-supported debt service costs. According to the most recent data published by Moody's, British Columbia has one of the lowest taxpayer-supported debt service costs as a percentage of revenue of all provinces.

Chart 5 – Interprovincial comparison of taxpayer-supported debt service costs as a percentage of revenue



Source: Moody's Investors Service Inc.

¹Figures for PEI restated to reflect latest Moody's report.

British Columbia's results as per Ministry of Finance's actuals; Moody's results for British Columbia as at March 31, 2015 are 3.7%

Moody's definition of taxpayer-supported debt is modestly different from the definition used by the Ministry of Finance. The financial community has not agreed upon a definition for taxpayer-supported debt. The definition used by Moody's is the closest to that employed by the ministry but, even then, there are small differences. The value of presenting Moody's debt indicators is that it provides an interprovincial comparison from a third party source, which is helpful for readers to understand the province's relative performance and ranking.

More comprehensive information on the debt of the province and its Crown corporations and agencies is provided on the Debt Management Branch website. This detailed information can assist readers in assessing the province's debt position. The website is available on the Internet at: www.fin.gov.bc.ca/PT/dmb/index.shtml.



INDEPENDENT AUDITOR'S REPORT

To the Minister of Finance, Province of British Columbia

I have audited the accompanying debt-related statements of the Government of the Province of British Columbia (the Government), which comprise the summary of provincial debt as at March 31, 2016, the key indicators of provincial debt and the summary of performance measures for the year then ended, and a summary of significant accounting policies.

Through these statements, the government reports to the Legislative Assembly on its debt management by presenting five years of information on provincial debt and debt indicators, and compares its actual results of performance measures to its target measures for the fiscal year ended March 31, 2016.

Government's Responsibility for the Debt-Related Statements

Government is responsible for determining the appropriateness of the stated basis of accounting as described in the notes to the debt-related statements and for the preparation of the debt-related statements in accordance with the stated basis of accounting. Government is also responsible for such internal control as management determines is necessary to enable the preparation of the debt-related statements that are free from material misstatement, whether due to fraud or error.

Auditor General's Responsibility

My responsibility is to express an opinion on these debt-related statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the debt-related statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the debt-related statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the debt-related statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Government's preparation and presentation of the debt-related statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Government, as well as evaluating the overall presentation of the debt-related statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the summary of provincial debt as at March 31, 2016, the key indicators of provincial debt and the summary of performance measures for the year then ended, are prepared, in all material respects, in accordance with the basis of accounting as described in the notes to the debt-related statements.

Victoria, British Columbia
July 4, 2016



Carol Bellringer, FCPA, FCA
Auditor General



OFFICE OF THE
Auditor General
of British Columbia

Summary of Provincial Debt¹ as at March 31

	2016	2015	In Millions 2014	2013	2012
	\$	\$	\$	\$	\$
Taxpayer-supported Debt					
Provincial government direct operating					
Provincial government operating.....	5,338	6,584	7,527	6,712	5,117
Provincial government general capital.....	2,696	2,696	2,696	2,696	2,696
	<u>8,034</u>	<u>9,280</u>	<u>10,223</u>	<u>9,408</u>	<u>7,813</u>
Education ²					
Schools.....	8,033	7,600	7,245	6,830	6,407
Post-secondary institutions.....	4,731	4,518	4,386	4,315	4,185
	<u>12,764</u>	<u>12,118</u>	<u>11,631</u>	<u>11,145</u>	<u>10,592</u>
Health facilities ²	<u>6,998</u>	<u>6,522</u>	<u>6,038</u>	<u>5,691</u>	<u>5,293</u>
Highways, ferries and public transit					
BC Transportation Financing Authority.....	9,185	8,428	7,912	7,084	6,287
British Columbia Transit.....	106	123	143	163	183
Public transit ²	1,000	1,000	1,000	1,000	1,000
SkyTrain extension ²	1,174	1,174	1,174	1,174	1,174
	<u>11,465</u>	<u>10,725</u>	<u>10,229</u>	<u>9,421</u>	<u>8,644</u>
Other					
BC Pavilion Corporation.....	389	381	382	383	383
Provincial government general capital.....	1,987	1,698	1,372	1,073	808
Social Housing ³	760	715	719	658	674
Other ⁴	330	441	474	403	452
	<u>3,466</u>	<u>3,235</u>	<u>2,947</u>	<u>2,517</u>	<u>2,317</u>
Total taxpayer-supported debt.....	<u>42,727</u>	<u>41,880</u>	<u>41,068</u>	<u>38,182</u>	<u>34,659</u>

Summary of Provincial Debt¹—Continued as at March 31

	In Millions				
	2016	2015	2014	2013	2012
	\$	\$	\$	\$	\$
Self-supported Debt					
Commercial Crown corporations and agencies					
British Columbia Hydro and Power Authority ⁵	17,928	16,544	15,559	14,167	12,978
British Columbia Lottery Corporation.....	150	140	155	132	90
Columbia Power Corporation.....	296	300			
Columbia River power projects ⁶	459	464	470	475	481
Post-secondary institutions' subsidiaries ⁷	310	222	198	215	173
Transportation Investment Corporation.....	3,389	3,335	3,209	2,610	1,779
Other ⁸	33	35	34	35	33
Total self-supported debt.....	22,565	21,040	19,625	17,634	15,534
Total provincial debt.....	65,292	62,920	60,693	55,816	50,193

¹Debt is after deductions of sinking funds, unamortized discounts and unrealized foreign exchange gains/(losses), and excludes accrued interest. Government direct and fiscal agency debt accrued interest is reported in the government's accounts as an accounts payable.

²Represents government direct debt incurred for capital financing of education and health facilities and public transit infrastructure.

³Includes the debt of the British Columbia Housing Management Commission and the Provincial Rental Housing Corporation.

⁴Includes debt of other taxpayer-supported Crown corporations and agencies and the fiscal agency loans to local governments. Also includes reconstruction loan program guarantees, student loan guarantees, loan guarantees to agricultural producers, guarantees under economic development and home mortgage assistance programs.

⁵Effective July 5, 2010, the British Columbia Hydro and Power Authority assumed responsibility for the fiscal agency loans of the British Columbia Transmission Corporation (\$70 million).

⁶Debt related to joint ventures of the Columbia Power Corporation and the Columbia Basin Trust.

⁷Includes debt of Heritage Realty Properties Ltd., SFU Community Trust, UBC Property Investments Ltd. and Vancouver Island Technology Park.

⁸Includes Columbia Basin Trust's share of real estate investment joint ventures' debt, British Columbia Liquor Distribution Branch and School District 91 private company.

Summary of Provincial Debt

The debt-related statements are prepared using financial information that supports the government's Summary Financial Statements, which are prepared in accordance with Canadian generally accepted accounting principles. However, in the debt-related statements, there are some differences in the methods of compilation and presentation compared to generally accepted accounting principles. In the debt-related statements, debt is calculated net of sinking fund assets, includes debt directly incurred by modified equity enterprises, and other commercial subsidiaries of taxpayer-supported entities, and includes debt incurred by others outside the government reporting entity where there is provincial guarantee as to the payment of principal and interest. Also, total provincial revenue and interest costs include the gross revenue and interest costs of modified equity enterprises, and total provincial interest costs are net of sinking fund earnings.

Provincial government general capital

In February 2009, government tabled the *Finance Statutes (Deficit Authorization and Debt Elimination) Amendment Act*, 2009, which prohibited spending on supplementary estimates until operating debt was eliminated. Historically, government direct operating debt included debt attributed to financing ministry capital expenditures, in addition to borrowing for operating deficits and working capital needs. In accordance with the amending legislation, beginning in 2009/10, debt attributed to amounts spent on ministry capital are reported as "Provincial government general capital" and reported separately from direct operating debt for deficit financing. Amounts attributed to ministry capital spending prior to 2008/09 are disclosed as a component of direct operating debt for compliance with the amended legislation. These segregated debt disclosures are consistent with government's policy of paying down operating debt before other types of debt.

Key Indicators of Provincial Debt¹ for the Fiscal Years Ended March 31

	2016		2015	2014	2013	2012
	Budget Estimate	Actual	Actual	Actual	Actual	Actual
Debt to Revenue (percent)						
Total provincial.....	110.5	105.8	106.4	107.7	104.1	94.7
Taxpayer-supported.....	95.4	91.0	94.1	96.1	93.7	85.1
Debt per Capita (\$)²						
Total provincial.....	14,071	13,942	13,586	13,244	12,287	11,156
Taxpayer-supported.....	9,212	9,124	9,043	8,962	8,405	7,703
Debt to GDP (percent)³						
Total provincial.....	26.6	26.7	26.4	26.9	25.1	23.1
Taxpayer-supported.....	17.4	17.4	17.5	18.2	17.2	15.9
Interest Bite (cents per dollar of revenue)⁴						
Total provincial.....	4.7	4.8	4.2	4.5	4.4	4.3
Taxpayer-supported.....	3.9	4.2	3.6	4.0	3.9	4.0
Interest Costs (\$ millions)						
Total provincial.....	2,827	2,946	2,465	2,550	2,336	2,300
Taxpayer-supported.....	1,777	1,960	1,591	1,689	1,590	1,625
Interest Rate (percent)⁵						
Taxpayer-supported.....	4.2	4.6	3.8	4.3	4.4	4.9
Revenue Factor for Key Indicators (\$ millions)						
Total provincial ⁶	59,688	61,726	59,142	56,367	53,613	52,993
Taxpayer-supported ⁷	45,241	46,927	44,526	42,725	40,744	40,734

Key Indicators of Provincial Debt¹ for the Fiscal Years Ended March 31—Continued

	2016		2015	2014	2013	2012
	Budget Estimate	Actual	Actual	Actual	Actual	Actual
Total Debt (\$ millions)						
Total provincial.....	65,960	65,292	62,920	60,693	55,816	50,193
Taxpayer-supported ⁸	43,182	42,727	41,880	41,068	38,182	34,659
Provincial GDP (\$ millions)⁹.....	247,860	244,990	238,726	225,794	222,565	217,460
Population (thousands at July 1)¹⁰.....	4,688	4,683	4,631	4,583	4,543	4,499

¹Figures for prior years have been restated to conform with the presentation used for 2015/16 and to include the effects of changes in underlying data and statistics.

²The ratio of debt to population (e.g., debt at March 31, 2016 divided by population at July 1, 2015).

³The ratio of debt outstanding at fiscal year end to provincial nominal gross domestic product (GDP) for the calendar year ending in the fiscal year (e.g., debt at March 31, 2016 divided by 2015 GDP).

⁴The ratio of interest costs (less sinking fund interest) to revenue. Figures include capitalized interest expense in order to provide a more comparable measure to outstanding debt.

⁵Weighted average of all outstanding debt issues.

⁶Includes revenue less earnings related to enterprises (sinking fund earnings, loan interest and net earnings), plus revenue of all enterprises.

⁷Excludes revenue of government enterprises, but includes dividends from enterprises paid to the Consolidated Revenue Fund.

⁸Excludes debt of commercial Crown corporations and agencies, and funds held under the province's warehouse borrowing program.

⁹Nominal GDP for the calendar year ending in the fiscal year (e.g., GDP for 2015 is used for the fiscal year ended March 31, 2016). As nominal GDP for the calendar year ending 2015 is not available, the 2015 GDP projected in February 2016 has been used for the fiscal year ended March 31, 2016 for demonstration purposes. Preliminary GDP figures are presented as published for the year noted.

¹⁰Population at July 1st within the fiscal year (e.g., population at July 1, 2015 is used for the fiscal year ended March 31, 2016).

Summary of Performance Measures for the Fiscal Year Ended March 31, 2016

	2016 Target	2016 Actual	2015 Actual
Provincial credit rating ¹	Aaa	Aaa	Aaa
Taxpayer-supported debt to GDP ratio ²	17.4%	17.4%	17.5%
Taxpayer-supported debt service costs as a percentage of revenue ²	3.9%	4.2%	3.6%

¹Performance target presented in the Ministry of Finance 2016/17–2018/19 Service Plan, actuals as per Moody's Investors Services Inc.

²These performance measures, among others, are key indicators on which credit rating agencies rely to determine the province's credit rating. In previous Ministry of Finance service plans, these target measures were included but in the 2016/17–2018/19 Service Plan, only the province's credit rating is cited as a comprehensive measure of performance. Target ratios are now included in the Ministry of Finance's budget estimates from the Budget and Fiscal Plan 2015/16–2017/18. Actual performance measures are those reported in the 2015/16 Public Accounts.

Definitions (Unaudited)

Consolidated Revenue Fund—includes the taxpayer-supported activities of the General Fund and special funds of the government through which the government delivers central government programs. It does not include the activities of government operated through Crown corporations and agencies or the school districts, universities, colleges, institutes and health organizations (SUCH) sector.

Consolidation—the methods used to combine the results of Crown corporations and agencies and the SUCH sector entities with the Consolidated Revenue Fund. The two methods used are:

(i) *Full or Proportional Consolidation*—the accounts of the Crown corporation, agency or SUCH sector entity are adjusted to a basis consistent with the accounting policies of the government. The operating result and financial position of the Crown and SUCH entities are combined with those of the Consolidated Revenue Fund on a line-by-line basis. Inter-entity accounts and transactions are eliminated upon consolidation. Proportional consolidation differs from full consolidation in that only the government's portion of operating and financial results of a joint venture is combined with those of the Consolidated Revenue Fund on a line-by-line basis.

(ii) *Modified Equity Consolidation*—the original investment of the government in the Crown corporation, agency or SUCH sector entity is initially recorded at cost and adjusted annually to include the net earnings/losses and other net equity changes of the entity. There is no adjustment to conform to government accounting policies. Since the government ensures the ongoing activities of self-supported Crown corporations and agencies, full account is taken of losses in these entities, even when cumulative losses exceed the original investment. Accounts and transactions between self-supported entities are not eliminated; however, profit elements included in such transactions, including certain increases in contributed surplus, are eliminated.

Debt has a variety of meanings:

(i) *Gross debt*—the par value of the debt, unamortized discount and premiums, and unrealized foreign exchange gains or losses.

(ii) *Net debt*—gross debt less sinking fund investments.

(iii) *Provincial debt*—net debt plus guaranteed debt and debt directly incurred by modified equity entities.

Deficit—the meaning is dependent upon the statement to which it applies:

(i) Consolidated Statement of Financial Position: *Accumulated Deficit*—the amount by which the total liabilities of the government exceeds its total assets.

(ii) Consolidated Statement of Operations: *Annual Deficit*—the amount by which the total annual expenses for the operating year exceed total annual revenues (see "Surplus" definition).

Entitlement—a government transfer that must be made if the recipient meets specified eligibility criteria. Entitlements are non-discretionary in the sense that both eligibility criteria and the amount of the payment are prescribed in a statute or regulation.

Financial assets—assets on hand at the end of the accounting period, including cash and assets that are readily convertible into cash and are not intended for consumption in the normal course of activities. These assets could be liquidated to discharge existing liabilities or finance future operations. Financial assets could include sinking fund investments held to pay debt at maturity.

Government business enterprise—a government organization that has all the following characteristics:

- (i) is a separate legal entity with the power to contract in its own name and that can sue or be sued;
- (ii) has been delegated the financial and operational authority to carry on a business;
- (iii) sells goods and/or services to individuals and organizations outside the government reporting entity as its principal activity; and
- (iv) can, in the normal course of its operation, maintain its operations and meet its liabilities from revenue received from sources outside the government reporting entity.

Definitions—Continued (Unaudited)

Government partnership—a contractual arrangement between the government and a party or parties outside the government reporting entity that has all the following characteristics:

- (i) the partners cooperate toward achieving significant, clearly defined common goals;
- (ii) the partners make a financial investment in the government partnership;
- (iii) the partners share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis; and
- (iv) the partners share, on an equitable basis, significant risks and benefits associated with the operation.

Government transfers—transfer of money from government to an individual, organization or another government from which the government making the transfer does not:

- (i) receive any goods or services directly in return;
- (ii) expect to be repaid in the future; nor
- (iii) expect a financial return.

Grants—a government transfer made at the sole discretion of the government. The government has the discretion to decide whether or not to make the grant, any conditions to be complied with, the amount of the grant and the recipient of the grant.

Net liabilities—the amount by which the total liabilities of the government exceed its total financial assets. The separate calculation of this number on the Consolidated Statement of Financial Position is unique to financial statements for Canadian senior governments. This calculation excludes non-financial assets such as buildings and prepaid expenses.

Other comprehensive income (OCI)—is made up of certain unrealized gains and losses of self-supported Crown corporations that are not reported in their statement of operations, but are reported in their statement of financial position. These unrealized gains and losses will be recognized in the statement of operations when they become realized gains and losses.

Provincial government direct debt—combines the government direct operating debt and the debt incurred to finance education, health facilities and public transit. This combined portfolio represents the debt for which the government has direct responsibility for the associated debt service costs.

Self-supported Crown corporations and agencies—all Crown corporations and agencies 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 are owned or controlled by the government. In addition, they must also carry on a business that sells goods and/or services to persons outside the government reporting entity as their principal activity and maintain operations and meet liabilities from revenue received outside the government reporting entity in the normal course of operations. This also includes the government's interest in government business enterprises.

Sinking funds—a pool of cash and investments earmarked to provide resources for the redemption of debt.

Summary accounts—the financial position and operating result of the government reporting entity including the Consolidated Revenue Fund, Crown corporations, agencies and SUCH sector entities; the amounts represented by the Summary Financial Statements of the government.

Surplus—meaning is dependent upon the statement to which it applies:

- (i) Consolidated Statement of Financial Position: the accumulated surplus is the amount by which the total assets of the government exceeds its total liabilities.
- (ii) Consolidated Statement of Operations: the annual surplus is the amount by which the total annual revenues for the operating year exceed total annual expenses (see "Deficit" definition).

Definitions—Continued (Unaudited)

Taxpayer-supported Crown corporations and agencies and SUCH sector entities—all Crown corporations and agencies and entities outside the Consolidated Revenue Fund that meet the criteria of control (by the province) as established by generally accepted accounting principles. In addition, they must not meet the criteria for being self-supported. This also includes the government's interest in government partnerships that are not government business enterprises.

Transfers under agreements (including shared cost)—a government transfer that is a reimbursement of eligible expenditures pursuant to an agreement between the government and the recipient. The recipient usually spends the money first; however, the government has some input into how the money is spent.

Acronyms (Unaudited)

APAC	Accounting Policy Advisory Committee
AiP	Agreements in Principle
BC Hydro	British Columbia Hydro and Power Authority
BCHMC	British Columbia Housing Management Commission
BCIT	British Columbia Institute of Technology
BCRC	British Columbia Railway Corporation
BCT	British Columbia Transit
BCTS	British Columbia Timber Sales
BTAA	<i>Budget Transparency and Accountability Act</i>
CICA	Canadian Institute of Chartered Accountants
CMHC	Canada Mortgage and Housing Corporation
CRF	Consolidated Revenue Fund
FAA	<i>Financial Administration Act</i>
FRAS	Financial Reporting and Advisory Services
FTE	Full-time equivalent
GAAP	Generally accepted accounting principles (for senior governments as recommended by the Canadian Public Sector Accounting Board)
GDP	Gross domestic product
GRE	Government reporting entity
HPO	Homeowner Protection Office
HST	Harmonized Sales Tax
ICBC	Insurance Corporation of British Columbia
IFRS	International Financial Reporting Standards
MLA	Members of the Legislative Assembly
Moody's	Moody's Investors Service
OAG	Office of the Auditor General
OCG	Office of the Comptroller General
OCI	Other comprehensive income
OIC	Order in Council
P3	Public private partnership
Pension Corporation	British Columbia Pension Corporation
PHH	PHH Vehicle Management Services Inc.
PSAB	Public Sector Accounting Board
RTP	Rapid Transit Project 2000 Ltd.

Acronyms—Continued (Unaudited)

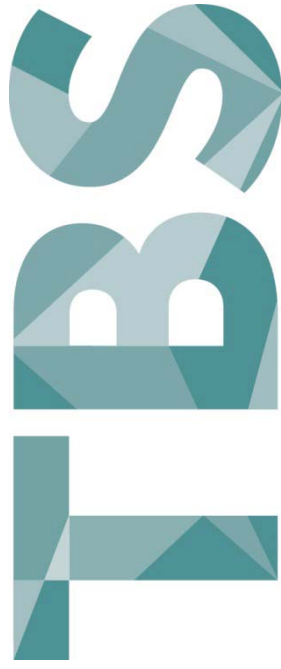
SCBCTA	South Coast British Columbia Transportation Authority
SUCH	School districts, universities, colleges, institutes and health organizations
TCA	Tangible capital assets
the Commission	British Columbia Utilities Commission
UBC	University of British Columbia
UVIC	University of Victoria

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FINAL OTPP Pension Accounting Deck - November 17 2016.pptx



Office of the Provincial Controller Division

Briefing:
***Accounting by the Province of
Ontario for the Ontario Teachers’
Pension Plan***

For Discussion Purposes Only

Overview



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Issue



- The Province had accounted for the Ontario Teachers' Pension Plan (OTPP), on a consistent basis for the prior 14 years since adopting the pension accounting standard (RETIREMENT BENEFITS, Section PS 3250) in 2001/02.
- In relation to the 2015-16 Public Accounts for the Province of Ontario, the Auditor General of Ontario (AG) challenged the Province's previous accounting for OTPP and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP).
- The AG disagrees that the surplus in OTPP is a reportable asset to the Province on the basis that:
 - there is no legally enforceable unilateral right to the asset, and in the absence of that,
 - no agreement was in place at March 31, 2016 with the Ontario Teachers' Federation (OTF) to reduce future contributions
- The following analysis is specific to OTPP; OTPP's constating documents differ from those of other pension plans in Ontario and in other provinces.

Reporting in the 2015-16 Public Accounts



- The Province disagrees with the Auditor General's interpretation of Public Sector Accounting Board (PSAB) standards.
- The Province believes its share of OTPP's accounting surplus should be recognized as an asset. The Province expects to benefit from the reported pension assets through reduced contributions and has performed the required pension asset ceiling test to confirm that the Province's estimated asset value is not impaired.
- For purposes of the 2015/16 Public Accounts, the Province regulated the accounting treatment for pension assets for the jointly sponsored pension plans (OTPP and OPSEUFP) to reflect the Auditor General's (AG's) interpretation of PSAB standards. Since Management does not agree with the AG's interpretation of PSAB standards as related to jointly sponsored pension plans, the regulation was necessary to achieve the AG's accounting treatment and to allow management to sign off on the Statement of Responsibility.

Overview of OTPP



- OTPP meets the definition of a jointly sponsored pension plan (JSPP) as defined in the Pension Benefits Act. Sponsors are the Province of Ontario and the OTF.
- The sponsors are jointly responsible for decision making, share in contributions, and collectively address any plan funding surplus/deficit (at least every 3 years). The sponsors work within the framework of the Funding Management Policy (changes to this Policy would require consent of both sponsors). The sponsors can be said to have equal opportunity to benefit from surplus utilization through the negotiation process.
- The plan administrator is an independent board of directors that follows the direction of the co-sponsors on all key decisions, which includes plan structure, level of plan benefits, contribution rates, funding levels and contingency reserves and changes to the plan documents.

Prior accounting for OTPP by the Province



- Since 2001-2002, the Province has recorded its portion (50%) of the pension asset of OTPP in accordance with Section PS 3250.
- With regards to expected future benefit of the surplus, the Province would not expect to withdraw any surplus, but benefit through reduced future contributions.
- The Province and OTF have a history of equally sharing the benefits of surplus utilization as demonstrated from the time OTPP became a JSPP to the date the Funding Management Policy in 2003 was established (included in Appendix 1). Since 2003, OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the temporary improvement or permanent improvement zone. See Appendix 3.

- OTPP's financial statements are prepared under accounting standards for pension plans in Part IV of the CPA Canada Handbook ("Part IV"), which is a different accounting framework than the Province uses for its financial reporting (PSAB standards) and is also a different framework than is used to calculate the net surplus or deficit for funding purposes. Different assumptions are used, for example relating to the discount rate (See Appendix 4).

Primary sources of GAAP



- GENERALLY ACCEPTED ACCOUNTING PRINCIPLES Section PS 1150 states that a reporting entity applies every primary source of generally accepted accounting principles (GAAP) that deals with the transactions and events encountered by that entity.
- Section PS 3250 provides clear guidance that a joint defined benefit plan is accounted for using Section PS 3250 and therefore is the primary source of GAAP that must be applied.
- Other PSAB standards including the Financial Statements Concepts should be referred to if Section PS 3250 does not provide specific guidance for a circumstance.

Question 1 – Classification of a pension asset

For accounting purposes, what type of pension plan is OTPP and how should it be classified under Public Sector Accounting Standards (PSAS)?

Section PS 3250 Applicability to OTPP



- Section PS 3250 paragraph .001 states "This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements".
- Obligations for retirement benefits result from a promise by a government to provide these benefits to employees because of retirement in return for their services (Section PS 3250 paragraph .03).
- Section PS 3250 applies to the accounting for OTPP in the Province of Ontario's financial statements as the pension plan represents an obligation of the Province to provide retirement benefits to the members of the plan in return for their services.
- Section PS 3250 on its own is sufficient to assess the accounting for OTPP by the Province.

Definition of a JDBP



- The Teachers' Pension Act, the Partners' Agreement and the plan text collectively set out the terms surrounding the sharing of control of OTPP between the Province and OTF. The Province of Ontario has an equitable share of the risks and rewards (surpluses and deficits) of OTPP, thus meeting the definition of a Joint Defined Benefit Plan (JDBP) in PSAS.

A joint defined benefit plan is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:

- (a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;
- (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;
- (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and
- (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan (glossary to Section PS 3250).

Conclusion on classification



- The Province has concluded that OTPP meets the definition of a joint defined benefit plan as the Province and Ontario Teachers' Federation are shared sponsors of the plan.
- The Teachers' Pension Act, the Partners' Agreement and the plan text for OTPP collectively set out this shared control and equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a joint defined benefit plan in RETIREMENT BENEFITS, Section PS 3250 in PSAS which is a primary source of GAAP.

Question 2 – Recognition of a pension asset for a JDBP

As a result of its classification as a joint defined benefit plan, how should the Province of Ontario account for the pension surplus of OTPP in the Public Accounts?

Concept of shared control and asset recognition



- Section PS 3250 requires the government to account for its portion (as there is shared control) of a JDBP following the accounting requirements for a defined benefit plan within Section PS 3250 (paragraph .081); no distinction is made as to whether the plan is in a surplus or deficit position. In a JDBP the risks and rewards of a plan are equitably shared, so the Province's portion of the plan includes its share of any asset as well as its share of any liability.
- The Financial Statement Concepts definition of an asset references "control" over an economic resource in Section PS 1000 and does not address "shared control", which is relevant to the situation of a joint defined benefit plan, in respect of asset recognition. However, the term is included in other PSAB standards, for example relating to government partnerships (Section PS 3060 requires proportionate consolidation which is the recognition of a pro rata share of assets, liabilities, revenues and expenses of the partnership). Section PS 3060 existed prior to the introduction of Section PS 3250 into the PSAB standards, indicating that an asset subject to shared control with another party can be recognized in the financial statements.

Concept of Contingent Asset



- Section PS 3320, provides guidance on the disclosure of contingent assets in a government's financial statements. It characterizes a contingent asset as one where there is uncertainty as to the existence of an asset.
- It is the Province's position that the existence of the pension asset is not uncertain – there is an accrued benefit asset calculated in accordance with Section PS 3250 as noted above that is based on past transactions, representing the impact of cumulative contributions and benefit expense.
- The Province does however, acknowledge that uncertainty does exist with regards to measurement of the accrued benefit asset and potential impairment thereof.

Conclusion on recognition



- Section PS 3250 requires recognition by the Province of 50% of the plan assets of OTPP.
- Unilateral control is not necessary for asset recognition (as also seen with government partnerships); shared control is appropriate for a JDBP.
- Uncertainty relating to OTPP's pension surplus relates to measurement.

Question 3 – Measurement of a pension asset

How should the pension asset of OTPP be measured for purposes of reporting in the Public Accounts of the Province of Ontario?

Guidance in Section PS 3250 on measurement



- Section PS 3250 address how to measure a pension asset
- This is a two-step process (refer to Appendix 7)
- Step One: the accrued plan obligation (a Credit) and the plan assets (a Debit) are measured in accordance with the standard, and adjusted for any unamortized actuarial gains or losses (a Debit for gains not yet realized, a Credit for losses not yet realized). This measurement results in a retirement benefit liability when it is a net liability (a Credit) amount or an accrued benefit asset (AcBA) when it is a net asset (a Debit) amount

Guidance in Section PS 3250 on measurement (continued)



- Step Two: when the resulting amount is an asset, the standard requires a second step to test for asset impairment. The amount that is tested is the “adjusted benefit asset”. When there are net unamortized gains the AcBA is equal to the adjusted benefit asset (AdBA). When there are net unamortized losses the AcBA is reduced by those net unamortized losses to calculate the adjusted benefit asset (AdBA).
- The AcBA is then compared to the expected future benefit (referred to as the asset ceiling test). The objective is to limit a government's accrued benefit asset to the amount it can realize in the future. A government may benefit from an AcBA by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions (Section PS 3250 paragraph .056).

- The Province expects future benefits from OTPP's plan surplus to be realized through reduced future contributions, not withdrawals. There is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years as a minimum. A failure to agree might lead to mediation and/or arbitration, but not an assumption of the 'status quo'.
- Expectations of benefitting from the surplus are based on:
 1. The Teachers' Pension Act requires equal contributions from the Province and from plan members of OTPP;
 2. The history of surplus utilization for OTPP demonstrates sharing of the financial benefit between sponsors;
 3. No sponsor of OTPP can unilaterally utilize the plan's surplus; and
 4. If the sponsors of OTPP cannot agree on how to utilize the pension surplus, the matter can be submitted to mediation and then arbitration.
- The Province considers that the uncertainties around how and when to utilize the surplus do not result in an inability or lack of entitlement to utilize the surplus over the life of the plan.

Calculating the limit on the carrying amount of an accrued benefit asset (asset ceiling test)



- Calculation of the asset ceiling test involves professional judgement.
- Under Section PS 3250 the expected future benefit to be recorded by the government is the sum of:
 - a. The present value of the government's expected future accrual for service for the current number of active employees less the present value of minimum contributions the government is required to make regardless of any surplus; plus
 - b. The amount of the plan surplus that can be withdrawn in accordance with the existing plan and any laws and regulations.
- The following slides consider this calculation relative to the Province's 50% share of OTPP.

Considerations re: surplus withdrawal (Part b of the asset ceiling test)



- The Province does not expect to realize its expected future benefit through withdrawal of any plan surplus.
- Section PS 3250 specifies that an amount for withdrawal of surplus is only included when a government has a legally enforceable right of withdrawal.
- In accordance with the Funding Management Policy for OTPP, the parties must negotiate in order for a withdrawal of the surplus to happen.
- As at March 31, 2016 the Province did not have a signed agreement with OTF regarding withdrawal of the surplus.

Considerations re: reduced future contributions (Part a of the asset ceiling test)



- While Section PS 3250 states that legal enforceability is required to report an expected benefit for a withdrawal of the plan surplus, it does not include a similar requirement in respect of the ability to benefit through future contribution reductions.
- The Province expects to benefit fully from the asset by exercising their current rights under the plan arrangements to negotiate the use of surpluses in the form of contribution holidays/reductions. There is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. The surplus “zone” for OTPP impacts how the pension surplus may be utilized by the Province and is summarized in Appendix 3.
- The present value of its expected future accrual for service is typically calculated based on the Province's share (50% for OTPP) of the current service cost reported in the most recent actuarial valuation, taken into perpetuity.

Considerations re: reducing future contributions (Part a of the asset ceiling test)(continued)

- There is very limited guidance in PSAB standards on determining the present value of minimum contributions the government is required to make regardless of any surplus; professional judgement is required. The Province engaged consultants to calculate this value for OTPP considering different assumptions on future minimum contributions. The key scenarios considered and results are summarized in Appendix 5.
- For purposes of OTPP in the 2015-16 Public Accounts, 11 years was used by the Province reflecting the number of future years for which special contributions are to be made.
- Based on the Province's best estimate calculation of the expected future benefit and the results of the actuarial valuations performed as part of the pension asset ceiling test, no valuation allowance was deemed necessary in relation to the pension asset of OTPP at March 31, 2016.

Other guidance in PSAS on measurement



- Section PS 2130 provides guidance on dealing with measurement uncertainty.
- Measurement uncertainty in pension plan accounting exists for example in the estimation of the valuation allowance and in the determination of the discount rate (both in terms of selection of the rate to be used under PSAS and in management's best estimate of the long-term rate of return on plan assets).
- Historical rates of return on plan assets have supported the past discount rates used by the Province in relation to OTPP (see Appendix 4).
- The choice of rate used by the Province (long-term rate of return on plan assets) is consistent with the rate used by other Provinces in Canada for their pension plans (see Appendix 6).
- PSAS guidance acknowledges that the objective of funding and accounting are different (Section PS 3250 paragraphs .008 to .010). Because of the different objectives, the discount rates used will also be different.

Accounting for JDBP by other Provinces



- Provinces such as British Columbia, New Brunswick, Manitoba and Nova Scotia do not report assets for their provincial sponsored pension plans or alternatively provide a valuation allowance to reduce the value of a pension asset balance to nil.
- The different accounting treatment in the Province of Ontario (for OTPP) reflects the difference circumstances in these other provinces with regards to expected future benefits related to pension surpluses.

Conclusion on measurement



- The Province's position is that the attributes of the JDBP arrangements for OTPP entitle the Province to access its portion of the plan surplus through the right to negotiate its use of the Province's benefit through future reduced contributions.
- Significant professional judgement and estimation is involved in determining the valuation allowance under Section PS 3250; the Province has applied reasonable estimates and assumptions.
- Based on the results of modelling performed in relation to the asset ceiling test, the Province concluded that no valuation allowance was necessary.
- Refer to Appendix 2 for a comparison of the pension expense, surplus (deficit), net debt and net debt-to-GDP of the Province over the prior 10 years following the Auditor General's approach to pension accounting for OTPP compared with following the Province's interpretation of the PSAS.

APPENDICES

Appendix 1: History of Surplus Utilization for OTPP

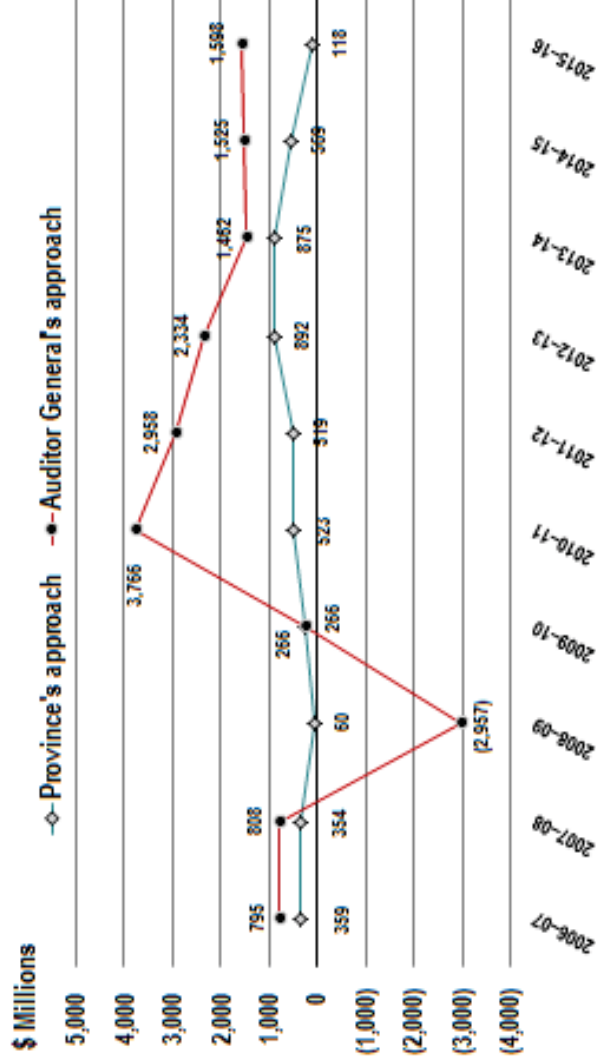


Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1993	\$1.5 billion	\$325 million to offset social contract days	Eliminated special payments for \$1.2 billion saving	\$0
1996	\$0.7 billion	\$0.6 billion for benefit improvements and RCA contributions	N/A	\$0.1 billion
1998	\$6.8 billion	\$2.2 billion for benefit improvements	\$4.6 billion to reduce the value of remaining special payments	\$0
1999	\$3.5 billion	N/A	\$3.5 billion to reduce the value of remaining special payments	\$0
2001	\$6.8 billion	\$6.2 billion for benefit improvements	N/A	\$0.6 billion
2002	\$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		\$1.9 billion
Total		\$9.3 Billion	\$9.3 Billion	

Appendix 2: Comparison of key measurements of the Province over the prior 10 years



OTPP expense comparison — 10-year Chart 1



Appendix 3: Surplus Zones



The Plan Documentation (specifically the FMP) and applicable legislation allow for the sponsors to utilize surplus in a variety of ways, depending on the funded status of the OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

- a. In the Restoration Zone, a Restoration Contribution Reduction may be approved once certain other requisite conditions have been met.
- b. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (i.e., a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).
- c. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

Appendix 4: OTPP funding vs. accounting discount rates and actual performance



Ontario Teacher's Pension Plan			
Rate Comparison			
	OTPP Annual Performance	OTPP Filed Discount Rate for Funding Valuation*	Province Economic Assumption for Nominal Return
2005	17.2%	6.48%	7.00%
2006	13.2%		7.00%
2007	4.5%		6.75%
2008	-18.0%	5.65%	6.75%
2009	13.0%	5.00%	6.75%
2010	14.3%		6.75%
2011	11.2%	5.40%	6.75%
2012	13.0%	5.30%	6.75%
2013	10.9%		6.75%
2014	11.8%	4.95%	6.75%
2015	13.0%	4.85%	6.50%
2016	n/a	n/a	6.25%

"OTPP filed discount rate" relates to that used in OTPP's financial statements prepared using Part IV and that the "Province Economic Assumption for Nominal Return" relates to that used in the Province's financial statements prepared using PSAB in relation to the OTPP plan.

Appendix 5: Summary of Ceiling Test Results (Various Scenarios)



Model Assumptions	Expected Future Benefit (\$ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation that is required even if a surplus is present.	\$44.6	The expected future benefit (EFB) as at March 31, 2016 exceeds the Adjusted benefit asset. There is no valuation allowance created and no reduction in the balance sheet asset position.
2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period covered by the current funding report. Contribution requirements are therefore \$1.7B per year for 2015, 2016 and 2017.	\$41.8	The minimum contribution requirement applies to the period covered by the funding report until a new report is completed. We do not know the minimum funding requirement after that date. EFB is reduced as of March 31, 2016 by the present value of the minimum contributions of \$1.3B in 2016 (9 months left) and \$1.7B in 2017. Still EFB exceeds the Adjusted benefit asset.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of expected special contribution requirement (i.e. 11 years through 2026).	\$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. When special contribution is present, the basic contribution cannot be reduced either. Once special contribution ends (2026) expected situation is surplus using the Province accounting best estimate assumption for asset return. The EFB at March 31, 2016 is reduced by \$15.3B. Still EFB exceeds the Adjusted benefit asset.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus above the threshold is used at 50 % for employees in benefit improvement and 50 % for the Province to reduce contributions in the following years.	\$23.2	The ITA surplus limit is reached at the end of 2024, leading to forced contribution reductions from 2025. The EFB is reduced by \$21.4B at March 31, 2016. Still EFB exceeds the Adjusted benefit asset.
5. Every year, 50 % of current year surplus is applied to improve member benefits and the remaining 50 % of the current year surplus is retained and continues to accrue unused. Once the unused portion attains the ITA threshold, the excess surplus is used 50 % - 50 % to reduce contributions by employees and the Province.	\$14.2	The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. The EFB is reduced by \$30.4B at March 31, 2016. Still EFB exceeds the Adjusted benefit asset.

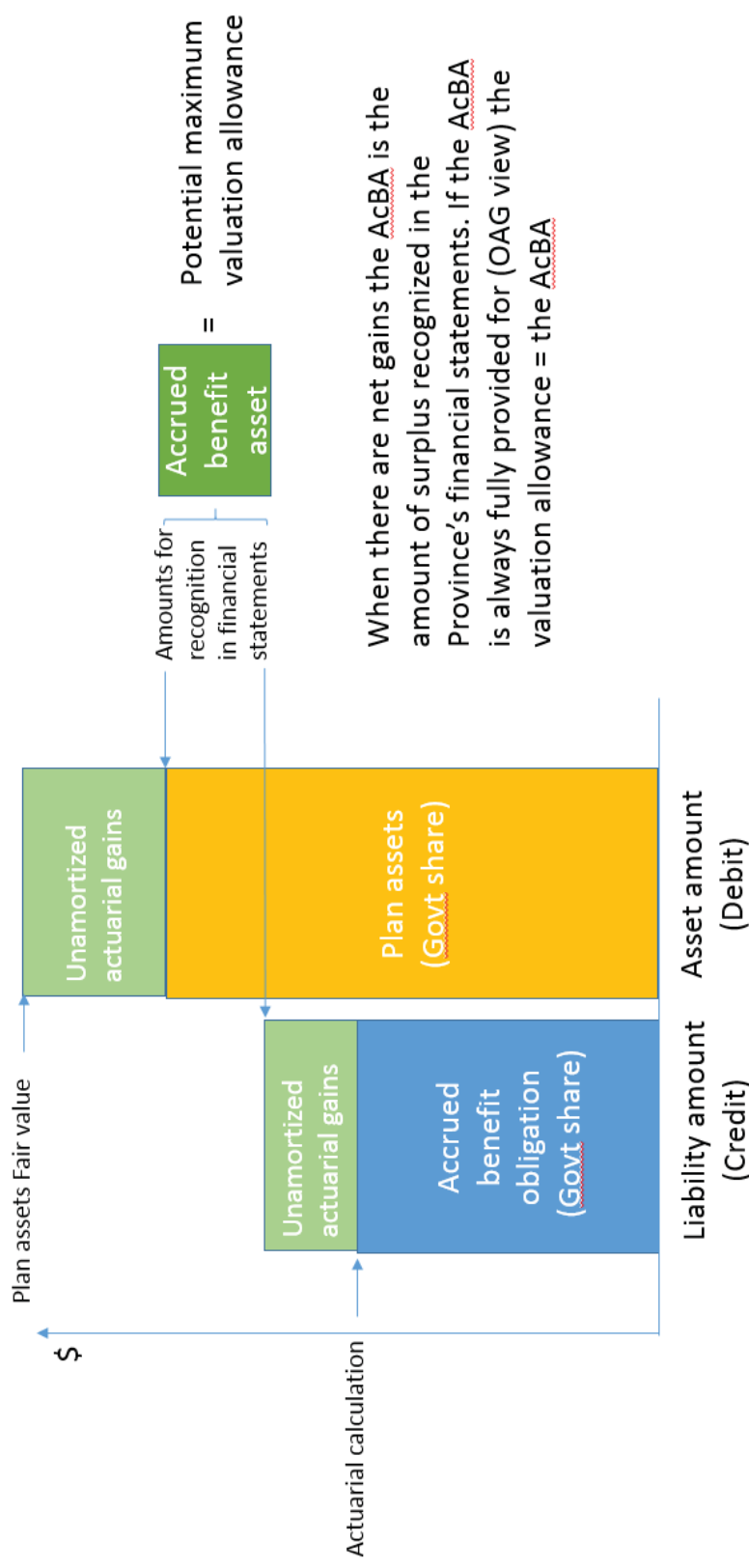
Appendix 6: Discount rates used by other Senior Canadian Governments and Pension Plans



Government		Plan - Funding		Plan F/S	
Ontario – LT ROR	6.25	OTPP	4.85 %	OTPP – MR of Prov. Bonds	3.25
Alberta – LT ROR	6.5	AB – Post 1992 PP	6	AB TPP – LT ROR	7.0
Saskatchewan – LT ROR	6.5	SK – SHEPP	NA	SK – LT ROR	6.5
BC – LT ROR	6.5	BC – PSPP	6.5	BC – LT ROR	6.5
Quebec LT ROR	6.5	QC - CARRA	5.8	QC – LT ROR	6.4
NFLD – LT ROR	6.3	NFLD – MUPP	5.8	NFLD – LT ROR	5.8
NS – LT ROR	7.75	NS - NSTPP	6.25	NS – LT ROR	6.25
MB – LT ROR	6.25	MB - MTPP	6	MB – LT ROR	6

Appendix 7: Measurement of a pension asset ¹

An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains. Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



FINAL Pension Asset Position Paper November 17 2016.docx

Accounting by the Province of Ontario for the Ontario Teachers' Pension Plan

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1.0 Preamble

This document addresses the accounting for the net pension assets by the Province of Ontario in relation to the Ontario Teachers' Pension Plan (OTPP).

The constating documents of OTPP are different from those of the Ontario Public Service Employees' Union Pension Plan (OPSEUPP), the Healthcare of Ontario Pension Plan (HOOPP), and the CAAT pension plan (CAAT). The appropriate accounting for OTTP may be different than for other pension plans in Ontario as well as pension plans in other provinces, for example New Brunswick and British Columbia, as a result of differences in the respective constating documents.

2.0 Issue to be considered

In connection with the preparation and audit of the 2015-16 Public Accounts, the Office of the Auditor General of Ontario (OAG) and the government's professional accounting staff disagreed on an appropriate application of Public Sector Accounting Standards (PSAS) to net pension assets related to two pension plans that the Province jointly sponsors –OTPP and OPSEUPP. This position paper addresses the analysis for OTTP. A separate document will provide further analysis on the Province's accounting in relation to OPSEUPP, as well as HOOPP and CAAT.

This position paper addresses the following three questions in relation to the accounting for OTTP:

1. For accounting purposes, what type of pension plan is OTTP (i.e. how should OTTP be classified under Public Sector Accounting Standards (PSAS))?
2. As a result of the classification, how should the Province of Ontario account for the pension surplus of OTTP in the Public Accounts?
3. How should the pension asset of OTTP be measured in the Public Accounts of the Province of Ontario?

3.0 Conclusions

The following conclusions were reached regarding each of the above questions:

1. Classification of OTTP - The Province has concluded that OTTP meets the definition of a joint defined benefit plan as the Province and Ontario Teachers' Federation are shared sponsors of the plan. The Teachers' Pension Act, the Partners' Agreement and the plan text for OTTP collectively set out this shared control and equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a joint defined benefit plan in RETIREMENT BENEFITS, Section PS 3250 in PSAS. The classification of OTTP as a joint defined benefit plan for accounting purposes has been consistent since 2001 and had been consistently accepted without question by the OAG, including throughout the 2015/16 Public Accounts.
2. Recognition of a pension asset for a joint defined benefit plan - The Province has concluded that PSAS (Section PS 3250) supports the recognition of a pension plan asset in respect of a joint defined benefit plan and does not require that all recognized assets be subject to unilateral

control. Shared control is relevant and appropriate for a situation involving a joint defined benefit plan. The Province's share of OTPP's pension surplus meets the definition of an accrued benefit asset under Section PS 3250 which requires the Province to recognize its portion of the plan (50% for OTPP).

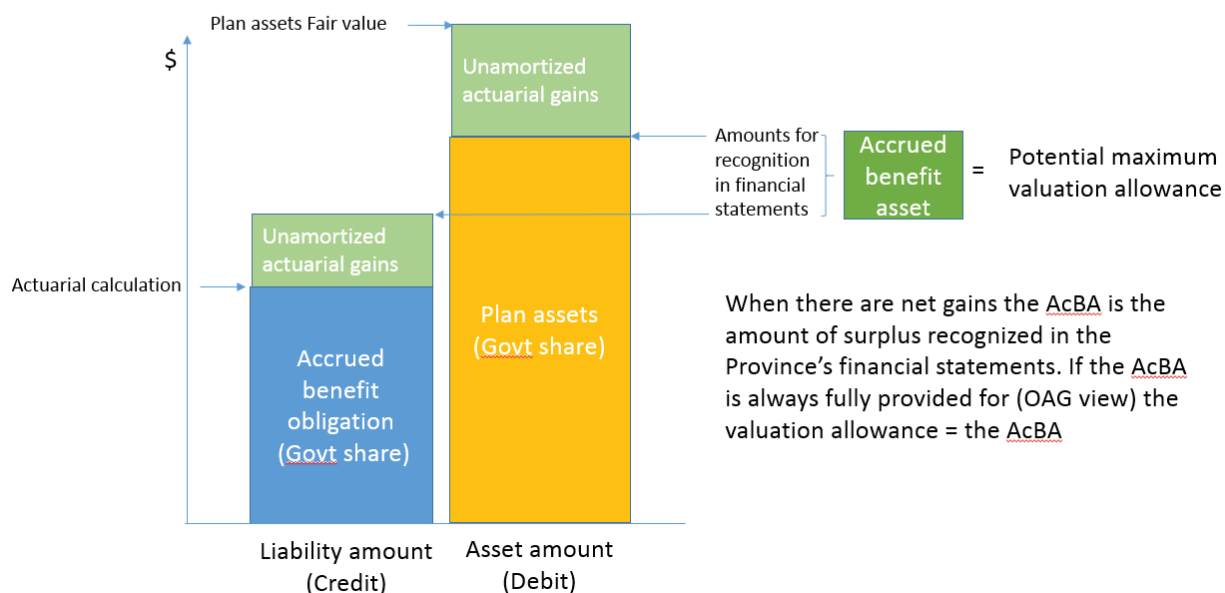
3. Measurement of a pension asset - The Province has concluded that the attributes of the joint defined benefit plan arrangements for the OTPP entitle the Province to access its portion of any plan surplus through the right to negotiate its use to the Province's benefit and that this results in an expected future benefit through the use of any plan surpluses to reduce contributions in the future. The Province has applied reasonable estimates of the plan's funding status necessary to determine what minimum contributions are required under the current plan contribution arrangements. Based on the results of those models to date no valuation allowance appears to be required and the OTPP pension assets should be recorded on the books of the Province. The Province recognizes that professional judgement must be applied in deriving an estimate of a potential valuation allowance under Section PS 3250.

4.0 Background Information

4.1 Accrued benefit asset

As described in PSAS, an accrued benefit asset (net pension asset) arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. An Accrued Benefit Asset (AcBA) includes the effect of net unamortized experience gains or losses. Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation. OTPP currently has net unamortized experience gains. The following illustration reflects the compilation of the net pension asset (accrued benefit asset) reported on the Province's books for the OTPP.

An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains. Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



It is important to note that contributions to the plan are based on funding objectives of the plan. In contrast, benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future.

The Province's position is that the net asset balance (plan surplus for accounting purposes) in OTPP is an asset to the Province and it is appropriate to reflect it in the financial results in accordance with PSAS. The Province has also concluded that no valuation allowance under PSAS is required against the asset as at March 31, 2016.

The OAG disagrees with the Province's position. Specifically, the OAG has indicated that the Province does not have the legally enforceable right to unilaterally access the assets of the plan, and as such that the Province does not control the assets which the OAG interprets PSAS as requiring. Further, the OAG considers the lack of an enforceable agreement at year-end with the Ontario Teachers' Federation (OTF as the joint sponsor of the plan) that would provide for lower contributions in the future as requiring that a full asset valuation allowance be taken against the net asset under PSAS.

Financial statements for the Province have been prepared over the prior 14 years in accordance with the CPA Canada Public Sector Accounting (PSA) Handbook. RETIREMENT BENEFITS, Section PS 3250 of the PSA Handbook, addresses the accounting of obligations for employee retirement benefits in government financial statements. Since 2001, there have been no consequential changes to Section PS 3250. As a result Ontario has followed the same pension accounting treatment for OTPP over the past 14 years. The pension liability (asset) and expense reported by the Province of Ontario for OTPP over the period is reflected in Appendix A. Unqualified audit reports have been received for each of the years from the OAG on the Public Accounts. The pension accounting initially adopted by the Province for OTPP had

been accepted by the current Auditor General for the last two years and by the three previous Auditors Generals for the prior years.

In light of the contrasting views on interpretation of PS 3250 to the Province's jointly sponsored pension plans, a regulation was necessary to allow the public service to sign-off on the impact of the OAG's view on accounting for net pension assets in Ontario's 2015-16 financial statements. The regulation is time-limited and legislates the accounting for net pension assets of its two jointly-sponsored pension plans (OTPP and OPSEUPP) for 2015-16 in a manner that is consistent with the interpretation proposed by the Auditor General. The change in accounting treatment for 2015-16 resulted in an additional \$10.7 billion being added to the net debt and accumulated deficit and an increase in the 2015-16 annual deficit of \$1.5 billion.

To clarify, the government's regulated accounting for the 2015-16 Public Accounts although resulting in a consistent fiscal impact as would be reflected under the Auditor General's interpretation, does not reflect the Province's interpretation of pension accounting under the PSAS.

On October 5, 2016, the Auditor General issued a qualified report on the 2015-16 Public Accounts. While the 2015-16 results were accepted by the Auditor General, the audit opinion was qualified because the comparative financial balances were not restated for the prior year to reflect the Auditor General's interpretation of PSAS. Restating the previous year's results would have had no impact on the financial results for 2015-16, including the annual deficit and net debt and would have only been appropriate if the government had agreed with the Auditor General's interpretation of PSAS which would have acknowledged errors in the prior year's comparative results.

4.2 Overview of OTPP

OTPP is a jointly sponsored pension plan¹ (JSPP) as defined in the *Pension Benefits Act (Ontario)*, R.S.O. 1990, c. P.8 and as established under the *Teachers' Pension Act (Ontario)*, R.S.O. 1990, c. T.1. The sponsors of OTPP are the Province of Ontario (the "Province"), through the Minister of Education and the OTF (collectively, the "sponsors").

The plan administrator of the OTPP is a board of directors. The plan administrator is an independent entity, members of which are appointed by the sponsors.

¹ **Jointly sponsored pension plans**

[\(2\)](#) For the purposes of this Act, a pension plan is a jointly sponsored pension plan if it has the following characteristics:

- a. It provides defined benefits.
- b. The defined benefits are contributory benefits.
- c. Members of the pension plan are required, by virtue of the documents that create and support the plan, to make contributions in respect of any going concern unfunded liability and solvency deficiency of the plan.
- d. The plan satisfies such additional criteria as may be prescribed. 2005, c. 31, Sched. 18, s. 1 (2).

The constating documents for OTPP set out the respective rights of the sponsors, and describe the powers of the plan administrator. OTPP is governed by:

- a) The *Teachers' Pension Act* (TPA), R.S.O. 1990, c.T.1 (TPA);
- b) The *Pension Benefits Act (Ontario)*, R.S.O. 1990, c. P.8 (PBA) and the regulations thereunder (PBR);
- c) Plan text for OTPP ;
- d) An agreement between Her Majesty the Queen in right of the Province of Ontario represented by the Minister of Education and Training and The Ontario Teachers' Federation represented by its Executive, dated July 15, 1991, as amended (The Partners' Agreement);
- e) A Funding Management Policy, attached as Appendix A to the Partners' Agreement (FMP); and
- f) The Term Sheet agreed to by the Sponsors dated March 13, 2013 (the "2013 Term Sheet") describing the implications of the Freeze Period on the Funding Management Policy.

Three material implications for OTPP as a result of qualifying as a JSPP under the PBA are:

1. Plan Governance - Under a JSPP, the employers (or any persons or entities who make contributions on behalf of the employers or represent the employers) and the members of the pension plan (or any representatives of the members) are jointly responsible for making all decisions about the terms and conditions of the pension plan and any amendments to the pension plan. ²
2. Funding – OTPP is exempt from solvency funding requirements under the PBR. ³
3. Cost Sharing - In a defined benefit pension plan which does not qualify as a JSPP, the employer is solely responsible for funding any going concern unfunded liability or solvency deficiency. Given that the OTPP qualifies as a JSPP, however, the PBA permits members to be required to make contributions in respect of any going concern unfunded liability or solvency deficiency. ⁴

With respect to the cost-sharing principle referred to in #3 above, the TPA contains limitations on the contributions that the Province (and other participating employers) may make under OTPP:

5(1.1) The total amount of the contributions payable by the Minister of Education and the employers who contribute under the pension plan in respect of any year shall not exceed the amount of contributions payable by or on behalf of active plan members in respect of credited service for that year.

Despite this general principle, under the TPA the Province is required to make additional contributions to OTPP in the event that there are insufficient assets to make required payments out of the plan in any particular year. ⁵ This clause has been interpreted as a short term solvency protection clause, rather than a clause that transfers substantive residual risk to the Province, as the rest of the arrangement is

² PBR, subsection 3.1(1).

³ PBR, subsection 1.3.1(3).

⁴ PBA, subsection 1(2) and subsection 55(4).

⁵ TPA, subsection 5(3).

structured such that the risk of these payments is minimal and the risks of the long term funding of the plan must still be equitably shared. The Province is also permitted to make additional contributions in respect of a solvency deficiency⁶ (although, as noted above, solvency funding is not required under OTPP). Notwithstanding that subsection 5(1.1) of OTPP provides a cap on the Province's normal cost contribution obligation, rather than requiring 50/50 cost sharing, in practice there has been 50/50 cost sharing of the normal contribution cost under OTPP since OTPP became jointly sponsored (and for the majority of periods of time since the inception of the plan in 1917).⁷ The plan text itself also provides for equal contributions, at the basic level (see sections 25(1) and 26(1)).

Joint governance and cost sharing form two of the core features of OTPP. Consistent with the equal sharing of risk permitted under a JSPP, there is a requirement for decisions relating to plan design and plan amendments to be made jointly by the sponsors. In this regard, the Partner's Agreement requires the sponsors to negotiate and agree upon decisions relating to surplus or deficit utilization, which currently is outlined in the FMP.⁸ The FMP indicates that deficits (or surpluses) may be addressed through increases (decreases) to the contribution rates, lowering (increasing) the amount of indexation and/or other decreases (increases) in benefits. While not binding upon the sponsors, as the sponsors can change the FMP at any time, any changes are required to have the mutual consent of both sponsors. Accordingly, the sponsors can be said to have equal opportunity to benefit from surplus utilization through the negotiation process.

Additional excerpts from constating documents for OTPP relating to use of the Plan's surplus and the sharing of responsibilities amongst the sponsors are included in appendix B. Some important elements of these are:

1. Paragraph 10(1)3 of the TPA provides that the Minister of Education and the executive of the OTF may enter into an agreement that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the sponsors regarding how any surpluses are to be utilized. We note that the sponsors have in fact entered into such an agreement, in the form of the Partners' Agreement (to which is appended the FMP).

⁶ TPA, subsection 5(7).

⁷ See, Ontario Teachers' Pension Plan: "How Contribution Rates Have Evolved" available at: <https://www.otpp.com/documents/10179/20940/-/5e471c2b-23f1-44e6-b5c1d22e3e50dbc3/How+Contribution+Rates+Have+Evolved.pdf> As noted above, for the period from January 1, 2008 to December 31, 2008 the employee contribution rate was slightly lower than the employer contribution rate for earnings both above and below the YMPE (9.6%/11.20% versus 10.4%/12%, respectively). It is our understanding that member contribution rates in 2008 were partially subsidized by the OTF with a credit reserve from the 1998 to 2001 pension negotiations, which accounts for this difference.

⁸ See, for example, Section 3.09 and 3.11 of the FMP.

2. The Plan Documentation (specifically the FMP) and applicable legislation allow for the sponsors to utilize surplus in a variety of ways, depending on the funded status of OTPP. These surplus utilization options include the following avenues through which the Province may receive a financial benefit through the utilization of surplus (the three "zones" describe different levels of surplus, a greater amount of surplus being required in order for the next "zone" to come into play):

- a. In the Restoration Zone, a Restoration Contribution Reduction may be approved once certain other requisite conditions have been met.
- b. In the Temporary Improvement Zone, surplus may be utilized to provide a temporary contribution reduction (i.e., a contribution holiday), either as a stand-alone measure or in combination with other surplus utilization options (i.e., benefit improvements or surplus withdrawal).
- c. In the Permanent Improvement Zone, surplus may be utilized to permanently reduce the current contribution obligations of the employers and the members, either as a stand-alone measure or in combination with changes to benefits.

Notwithstanding the foregoing, under the FMP the sponsors have the discretion to, by mutual agreement, utilize surplus in any other manner.

3. Any enforceable legal right to obtain some value from any surplus pursuant to the Partners' Agreement (and FMP appended thereto) would be grounded in the law of contract. As the relevant provisions of the FMP require the sponsors to agree upon the manner in which surplus is to be utilized, neither sponsor has a legally enforceable right to unilaterally utilize surplus in OTPP. As such, the provisions in the FMP that contemplate the ability for the Province to receive a financial benefit through the utilization of surplus would not, in and of themselves, give rise to a legally enforceable right. What the Province does have, however, is a right to negotiate with the OTF the use of funding surpluses that may arise under the plan.

4. Negotiations on the use of the surplus occur as specified in the Partners' Agreement. The Partner's Agreement requires that any actuarial funding valuation submitted to the pension regulators must be "actuarially balanced" (Section 57 of the Partners' Agreement). This must occur at least once every three years, but can occur every year if the partners agree. If a preliminary funding valuation shows a funding surplus or deficit then the joint sponsors must negotiate how this surplus or deficit is to be resolved prior to filing the funding valuation.

4.3 Accounting for OTPP by the Province

Since fiscal year 2001-2002, the Province has recorded a net pension asset for OTPP on the Statement of Financial Position in accordance with Section PS 3250. A net pension asset has arisen because the government's share (50%) of the total contributions to OTPP plus recognized investment returns on the plan's assets have exceeded the government's share of the accumulated retirement benefit expense

(see illustrative examples in Appendix J). The accounting for the accrued benefit obligation results from a complex process involving significant assumptions and actuarial calculations covering a very long time frame as is required by RETIREMENT BENEFITS, Section PS 3250.

The various valuations prepared for the OTPP – i.e. those for the Province’s public accounts, those for the funding valuation and those for the OTPP stand-alone financial statements, can create confusion when assessing the Province’s accounting. Therefore, this next section sets out the differences in those valuations.

With regards to any comparisons between surplus or deficit amounts reported in the Province’s financial statements versus OTPP’s financial statements or funding reports, it is important to acknowledge the different objectives of funding and accounting for a pension plan which are also explicitly addressed in Section PS 3250 as follows:

.008 Determining whether a retirement benefit plan should be funded and the amount to be funded each period is a financial management matter. The funding objective is to determine an acceptable policy for financing the estimated ultimate cost of a benefit plan. An actuarial valuation for funding purposes is performed to calculate the contributions required to secure the benefits promised.

.009 The accounting objective is to measure and report the obligation for employee retirement benefits and to attribute the costs of those benefits to the periods in which the related services are rendered. To meet that objective, a method is needed to determine the amount of the obligation for retirement benefits outstanding, which represents the liability at the financial statement date, and the value of the benefits employees earned during the period, which represents the expense of that period. ...

.010 Because the objectives of determining the most appropriate funding policy are not necessarily the same as those of determining the most appropriate accounting method, the liability for accounting purposes may not be the same as the amount due but not yet funded at the financial statement date according to the funding plan. In addition, the retirement benefit expense of the period for accounting purposes may not be the same as the contribution computed in the period for funding purposes.

Section PS 3250 paragraph .051 includes an explicit acknowledgement that the accounting position and funding position can be quite different, as follows: “Contributions reflect the funding objectives of the Plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons...”

OTPP’s most recent preliminary funding valuation reported a preliminary funding surplus of \$13.2 billion as at January 1, 2016, as reported on the OTPP website (<https://www.otpp.com/home>). The Province’s relative portion of this surplus would be \$6.6 billion. OTPP’s published stand-alone financial statements showed a deficit for accounting purposes of \$1.8 billion in its financial statements as at December 31, 2015, for which the Province’s portion would be a deficit of \$900 million. The following background helps to clarify the reasons for these different results. OTPP’s financial statements are prepared under

accounting standards for pension plans in Part IV of the CPA Canada Handbook (“Part IV”), which is a different accounting framework than the Province uses for its financial reporting and is also a different framework than is used to calculate the net surplus or deficit for funding purposes.

Accounting for employee future benefits requires the use of assumptions and methodologies to calculate both the obligation incurred to date and the value of the assets already set aside to meet those obligations. Accounting frameworks differ in standards that must be applied in determining appropriate assumptions and methodologies. Further, the assumptions and methodologies used in developing a “funding valuation” on a going concern basis also differ from those required by accounting standards. These differences result in a number of different valuations for the same plan, depending on the purpose of the valuation and can be affected by certain choices made between acceptable options within each framework. A summary of the main differences between the methodologies used to calculate a going concern funding valuation, OTPP’s accounting valuation and the Province’s accounting valuation is shown in Appendix D.

Specifically, the discount rate used to value the obligations of the plan has a significant impact on the overall position of the plan. A lower discount rate results in a higher liability and a higher discount rate results in a lower liability, all else being equal. Put another way, a higher estimate of the time-value of money results in the value the promises made today that will be paid out in the future cheaper. OTPP uses a discount rate based on corporate/government bond rates in its financial statements, as permitted by Part IV. The Province uses a discount rate based on the expected asset return, as permitted by PSAS. The rationale for using a corporate or government bond approach is that a pension promise is akin to a bond as it is a promise to pay a series of cash flows in the future regardless of what the asset returns actually are (which could be higher or lower than expected). The rationale for using an asset return approach is that it represents the amount of contributions that, combined with investment returns, should be sufficient to pay the promised benefits, particularly as pension plans will often invest in higher risk/higher return assets than simple corporate bonds. Both a discount rate based on the expected asset return and one based on corporate/government bonds are “best estimate” rates; they must both be based on management’s best estimate of the applicable discount rate. In both cases the estimates must be supportable. The difference results not from one being more “right” or “wrong” relative to the other but from fundamentally different approaches within the accounting standards to what the discount rate should be.

Typically the funding discount rate used for the funding valuation falls between the bond discount rate and the expected asset return, but it differs in that it does not purport to be the “best estimate” of the discount rate, rather it is designed to indicate the contributions that are required to fund the promised benefits with an additional conservative margin for adverse deviations. Note that over the long term the difference between funding valuations and accounting valuations would diminish as the impact of the discount rate unwinds and the asset valuation methods converge.

In practice, the discount rates used in the financial statements of government sponsored and joint defined benefit pension plans prepared under Part IV of the CPA Canada Handbook (Section 4600) use diverse methodologies. For example, in Alberta there are seven plans which prepare their financial

statements under Part IV with reference to IFRS (same framework as OTPP). Of these none use a government bond discount rate and all use a discount rate calculated with some reference to a rate of return on invested assets, which may include factors for expenses, diversification and rebalancing. The analysis of a number of government sponsored plans is included as Appendix E. The analysis demonstrates that in their stand-alone financial statements, a significant number of government sponsored plans use a discount rate aligned to an asset investment return rather than a bond discount rate. OTPP is actually in the minority of plans that choose to use the rate required by IFRS, resulting in a lower discount rate and higher liability for financial reporting purposes.

The above analysis explains how different discount rates impact the net surplus/deficit reported on OTPP's financial statements, OTPP's funding reports and the Province's financial statements. The fact that OTPP reports a deficit on its financial statements, or that the 50% of the net surplus reported by OTPP for funding purposes is lower than the surplus reported on the government's financial statements under PSAS does not impact the net pension asset amount or pension expense reported by the Province for OTPP.

To further clarify, that there is a deficit reported in OTPP's stand-alone financial statements while the Province of Ontario calculates a surplus under PSAS requirements does not mean that there is no accounting surplus and therefore no reportable asset for the Province. In fact, if OTPP had chosen (as an acceptable accounting policy choice) to use a discount rate more consistent with its counterparts in other jurisdictions (see Appendix E) such as a discount rate based on an expected asset return which would be closer to that used by the Province, it would eliminate much of the existing difference between the reported net surplus/deficit amounts in OTPP's stand-alone financial statements and the Province's share of OTPP reported for accounting purposes in the Province's Public Accounts.

4.4 Applicability of PS 3250 as primary source of GAAP

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150 prescribes that, in developing and applying accounting policies, all primary sources of GAAP should be applied (Section PS 1150 paragraph .04). Primary sources of GAAP are Sections PS 1201-PS 3510, Public Sector Guidelines and appendices and illustrative material to those pronouncements. Only when there are no primary sources of generally accepted accounting principles (GAAP) that relate to the transactions or events under consideration, or more specific guidance is needed (Section PS 1150 paragraph .05), does an entity consider other primary sources of GAAP dealing with similar issues and also the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 (issued January 2003). Section PS 1000 is not, however, a "primary source of GAAP" under the PSA Handbook.

The primary sources of GAAP specific to the accounting for pension assets is RETIREMENT BENEFITS, Section PS 3250 (issued in September 2001 replacing the prior EMPLOYEE PENSION OBLIGATIONS, also titled Section PS 3250).

Other primary sources of GAAP that deal with similar issues might also be considered where additional interpretation or guidance may be required. For the issues dealt with in this paper - recognition and measurement of a joint defined benefit plan - this could include standards that relate to shared control,

as OTPP is a joint defined benefit plan, standards that relate to the definition of an asset and standards that relate to measurement uncertainty:

- GOVERNMENT PARTNERSHIPS, Section PS 3060 (issued in October 1999)
- ASSETS, Section 3210 (issued in June 2015, effective from April 1, 2017)
- CONTINGENT ASSETS, Section 3320 (issued in June 2015, effective from April 1, 2017)
- MEASUREMENT UNCERTAINTY, Section PS 2130 (issued in April 2005)

There have not been consequential changes to any of the above standards since their introduction into the PSA Handbook. Furthermore, all the standards were developed several years ago with the exception of ASSETS, PS 3210 and CONTINGENT ASSETS, Section PS 3320 which are more recent and will be effective in for periods beginning on or after April 1, 2017. Section PS 3210 provides additional guidance on the various components of the existing asset definition found in Section PS 1000; it does not change the definition.

5.0 Question 1 – Classification of a pension asset

The analysis below addresses whether the Province's share of the pension surplus in OTPP, calculated in accordance with PSAS under Section PS 3250, represents a reportable asset to the Province of Ontario in the Public Accounts.

5.1 RETIREMENT BENEFITS PSAS 3250

The focus of the following analysis is on the accounting requirements in RETIREMENT BENEFITS, Section PS 3250 as this standard is a primary source of GAAP which specifically addresses the accounting for pension assets. The following highlights some key concepts and guidance contained in this standard.

5.1.1 Section PS 3250 – Purpose and Scope

The purpose and scope of Section PS 3250 is included in paragraph .001 which states:

PURPOSE AND SCOPE

.001 This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.

Obligations for retirement benefits are further explained in RETIREMENT BENEFITS, Section PS 3250.003 as follows:

.003 Obligations for retirement benefits result from a promise by a government to provide these benefits to employees because of retirement in return for their services. Pensions and other retirement benefits, such as extended health care and life insurance benefits, are a form of compensation offered for services rendered and accrue over the years employees render those services. The fundamental accounting task is to determine the amount of the obligation for

retirement benefits to attribute to each period of employee service. Determining such amounts involves not only accounting for past transactions and events; it also requires forecasts of future events, such as inflation, investment returns, medical costs and employee turnover and mortality.

RETIREMENT BENEFITS, Section PS 3250 applies to the accounting for OTPP in the Province of Ontario's financial statements as the pension plan represents an obligation of the Province to provide retirement benefits to the members of the plan in return for their services.

5.1.2 PS 3250 – Types of pension plans

RETIREMENT BENEFITS, Section PS 3250 addresses the accounting for different types of pension plans including:

- defined benefit plans (of which joint defined benefit plans are a subset),
- defined contribution plans, and
- multi-employer and multiple-employer benefit plans.

The definition of a joint defined benefit plan is included in the glossary to Section PS 3250 as follows:

*A **joint defined benefit plan** is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:*

(a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;

(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;

(c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis; and

(d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor.

The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally.

Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.

Additional guidance on identifying joint defined benefit plans (JDBPs) is in Section PS 3250 paragraphs .79 to .80 which similarly highlight the importance of both shared control and shared risks and rewards in a JDBP as follows:

.079 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined

benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.080 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

It should be noted that the definition of a JDBP under Section PS 3250 is not the same as the definition of a JSPP under the PBA, although there are some overlapping concepts between the two. A JDBP is a unique sort of retirement benefit plan where the sponsors have shared control over the plan. As a result, no one party can, by itself, control decisions around funding, benefits and other matters; funding contributions, risks and benefits are to be shared mutually between the sponsors. The Province has concluded that OTPP meets the definition of a JDBP as the Province and OTF are sponsors of the plan. OTPP is a contractual arrangement between the Province and OTF in which:

- (a) the sponsors co-operate toward achieving the significant clearly defined common goal of providing retirement benefits in exchange for services rendered by the employees;
- (b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 5(1.1) of the TPA for example);
- (c) the sponsors share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis (addressed in paragraph 8 of the Partners' Agreement for example) ; and
- (d) the significant risks associated with the retirement benefit plan are shared on an equitable basis between the government and the plan members, represented by the non-government sponsor (addressed in paragraph 10(1)3 of the TPA for example).

The TPA, the Partners' Agreement and the plan text collectively set out this shared control and that the Province of Ontario has an equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a JDBP.

The classification of OTPP as a JDBP for accounting purposes [and a JSPP under the PBA] by the Office of the Provincial Controller has been consistent since 2001 and had been consistently accepted without question by the OAG, including throughout the 2015/16 Public Accounts.

5.2 Conclusion on classification

The Province has concluded that OTPP meets the definition of a joint defined benefit plan as the Province and Ontario Teachers' Federation are shared sponsors of the plan. The Teachers' Pension Act, the Partners' Agreement and the plan text for OTPP collectively set out this shared control and equitable sharing of the risks and rewards (surpluses and deficits) of the plan, thus meeting the definition of a joint defined benefit plan in RETIREMENT BENEFITS, Section PS 3250 in PSAS. The classification of OTPP as a joint defined benefit plan for accounting purposes has been consistent since 2001 and had been consistently accepted without question by the OAG, including throughout the 2015/16 Public Accounts.

6.0 Question 2 – Recognition of a pension asset for a JDBP

6.1 Standards in the PSA Handbook

RETIREMENT BENEFITS, Section PS 3250 paragraphs .081 to .082 provide guidance on the accounting for a JDBP in the financial statements of the government sponsor. As OTPP meets the definition of a JDBP for the reasons noted above, the relevant guidance for the Province for purposes of reporting retirement benefits in the Public Accounts includes:

.081 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans. [SEPT. 2001]

.082 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Section PS 3250 paragraph .081 clearly states that "The government should account for its portion of the plan in accordance with the standards for defined benefit plans". It is clear from this that only the government's portion of the plan is included in the government's financial statements consistent with the requirements of Section PS 3250 (recognition) and the measurement of that portion is based on the requirements of Section PS 3250 (measurement). It is also then clear that the requirements of the standard for recognition and measurement, including the Limit of the Carrying Amount of an Accrued Benefit Asset guidance, are designed to be applied to a shared control situation and not only to situations where there is unilateral control. If it was intended that no pension asset could be recognized because the asset was subject to shared control and not unilateral control Section PS 3250 paragraph .081 would have made this clear. This paper discusses the question of measurement separately in Question 3.

The balance sheet recognition guidance for retirement benefits is stated in Section PS 3250 paragraphs .016 to .017:

.016 The statement of financial position should report the retirement benefit liability and the statement of operations should report the expenses for retirement benefits on the basis of the value of the benefits attributed to employee service to the financial statement date. [SEPT. 2001]

.017 The components of the retirement benefit liability are:

(a) accrued benefit obligation including the effects of plan amendments, settlements and curtailments;

(b) plan assets, if any; and

(c) unamortized actuarial gains and losses.

As OTPP is a funded plan there are plan assets that are recognized as part of the retirement benefit liability. When plan assets and the net impact of unamortized actuarial gains and losses exceed the accrued benefit obligation then there is an “Accrued benefit asset” (ABA). An ABA is defined in Section PS 3250 as follows:

GLOSSARY - An **accrued benefit asset** is the amount of any asset recognized on a government's statement of financial position in respect of employee retirement benefits before deducting any valuation allowance that may be required. It is the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance).

Accordingly, the portion of the government's plan to be recognized includes their share of the accrued benefit obligation and also their share of the plan assets. In the case of the Province's portion of OTPP there is no uncertainty regarding the *existence* of an ABA for the government's portion of the plan; the ABA is calculated by reference to accrued benefit obligation and plan assets, both determined based on the best estimate assumptions and the methodologies required by with Section PS 3250 for these items. As noted above an ABA is defined as the sum of the government's accumulated cash contributions less the sum of the current and prior years' benefit expenses (before any change in the valuation allowance). For a jointly sponsored plan, this is the government's accumulated cash contributions less the government's share of the current and prior years' benefit expenses that are attributable to the government under the JDBP. The Province's portion of OTPP resulted in an ABA of \$10.1 billion as at March 31, 2016. There is no uncertainty regarding the occurrence of the cash contributions made (and the interest earned thereon) measured in accordance with Section PS 3250 and the existence of the government's obligation. As Section PS 3250 paragraph .080 *requires* a government to account for its portion of the plan in accordance with the standards for defined benefit plans, this would include the recognition of any asset that meets the definition of an ABA under the standard.

Further, Section PS 3250 paragraph .050 refers to the presentation of the ABA; this amount is presented in the financial statements, net of any valuation allowance. This indicates that an ABA should be

recognized in the financial statements, but measured in reference to the limit on the carrying amount of the asset - essentially a measurement requirement rather than a recognition requirement, as the limit could result in an ABA being measured at anything from \$nil to its full amount. Note that the *measurement* of any net asset is subject to guidance in Section PS 3250 paragraphs .050-.059 and is discussed later in this paper.

To recognize only their share of the liability and not their share of the plan assets, or to recognize only a net liability (when the accrued benefit obligation exceeds plan assets) but never a net asset (when plan assets exceeds the accrued benefit obligation, subject to the valuation allowance guidance discussed in the Measurement section below), would indicate that the Province does not share equitably in the risks and rewards of OTPP because they bear only the risk of increased liabilities without being able to bear any rewards of investment returns on the plan assets and under this interpretation the plan would not therefore be a JDBP.

6.2 Concept of Shared Control and Asset Recognition

Included in the definition of a JDBP is the concept of shared control. Points (b) and (d) of the definition of a JDBP require shared control of decisions relating to administration, levels of benefits and contributions between the sponsors; and the sharing of risks between the government and the plan members. The concept of shared control resulting in a recognition of an asset could on the surface appear to conflict with the definition of an asset under FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210, as part of the definition of an asset under Section PS 1000 would suggest that the government must control the economic resource and access to the future economic benefits. Since shared control does not equate to control, there is a need to consider whether the recognition of any asset under PS 3250 is appropriate where there is only shared control.

The Province's position is that PSAS does not preclude asset recognition for assets under shared control and specifically for plan assets of JDBPs for the following reasons:

- As discussed above GENERALLY ACCEPTED ACCOUNTING PRINCIPLES Section PS 1150 states that a reporting entity applies every primary source of GAAP that deals with the transactions and events encountered by that entity. Section PS 3250 is a primary source of GAAP for dealing specifically with JDBPs and, as noted above, requires the government to account for their portion of the plan – both the accrued benefit obligation and plan assets in accordance with Section PS 3250. As such, reference to Section PS 3250 is sufficient to indicate that the recognition criteria are met for JDBP assets, no further source of PSAS guidance need be considered.
- Similarly, if other primary sources of GAAP are considered then it is relevant to consider GOVERNMENT PARTNERSHIPS, Section PS 3060 which also includes the concept of shared control. Under Section PS 3060, shared control is sufficient for asset recognition.
- The concept of shared control is not addressed in the definition and guidance of an asset in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 and ASSETS, Section PS 3210. Although

shared control is not included in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, it has been a concept in the PSA Handbook since the introduction of Sections PS 3060 and PS 3250. With the introduction into the PSA Handbook of Section PS 1000 or Section PS 3210, the concept of shared control was not removed from Sections PS 3060 and PS 3250. This indicates that the Public Sector Accounting Board (PSAB) did not consider Section PS 3250 (or Section PS 3060) to be inconsistent with the general concepts in Section PS 1000.

- The Province's reporting of a pension asset for the JDBP is therefore consistent with these primary sources of GAAP, subject to measurement guidance including impairment considerations.

The similarities between the definitions of a JDBP and a government partnership under PSAS are demonstrated in Appendix F to this paper, and further support Section PS 3060 as being a relevant primary source of GAAP dealing with similar circumstances, should it be considered necessary to go outside of the requirements of Section PS 3250 to look for further clarification and guidance on recognition.

Under Section PS 3060 a critical condition for a Government partnership is shared control. Section PS 3060 explicitly acknowledges that under shared control "none of the partners is in a position to exercise unilateral control over the government partnership" (Section PS 3060 paragraph .20), yet the accounting model required by Section PS 3060 for non- GBPs⁹ is that of proportionate consolidation which is the recognition of a pro rata share of assets, liabilities, revenues and expenses of the partnership. JDBPs (or pension plans in general) are not specifically excluded from the scope of Section PS 3060 (Section PS 3060 paragraph .05 lists a number of exclusions from its scope and pension plans are not noted), however some may interpret that they are excluded from the scope of Section PS 3060 on the basis that control is shared with employees rather than with a party outside of the reporting entity (Section PS 3060 paragraph .06 footnote 3). The Province of Ontario and OTF, which represents employees of the Province (Teachers), share control of OTPP. This interpretation indicates that such plans are excluded because of a closer relationship between the government and the other party than normally exists for government partnerships. Even when an independent third party shares control, Section PS 3060 still requires the recognition of a share in an asset subject to shared control, indicating that the PSAS framework does not require unilateral control in order to support asset recognition when there is shared control. It would not be appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3060 for proportionate consolidation, and similarly it is not appropriate to use Section PS 1000 to over-ride the requirement in Section PS 3250 to account for the government's portion of a JDBP. In other words, Section PS 3250 is a primary source of GAAP and provides sufficient and complete guidance on how to account for assets related to JDBPs.

⁹ Government business partnerships (GBPs) are accounted for under the modified equity method rather than proportionate consolidation.

6.3 Concept of Contingent Asset

CONTINGENT ASSETS, Section PS 3320, provides guidance on the disclosure of contingent assets in a government's financial statements. It characterizes a contingent asset as one where there is uncertainty as to the existence of an asset (Section PS 3320 paragraph .04). It is the Province's position that the existence of the pension asset is not uncertain – there is an accrued benefit asset calculated in accordance with Section PS 3250 as noted above that is based on past transactions, being the impact of cumulative contributions and benefit expense. The fact that shared control exists with regards to access to the assets of the plan does not create additional uncertainty that would impact asset recognition under PSAS. The Province anticipates that in a broad sense, any OTPP surplus would be shared in an "equitable manner" under the terms of the arrangement, and this is enabled through the ability to negotiate the utilization of the surplus including the ability to prevent the utilization of the surplus in a manner that does not benefit the Province. This expectation is further supported by past history of surplus utilization (see Appendix G). The method, extent and timing during which the Province will obtain the expected future benefits (contributions reductions vs increase in benefits) is not certain. However Section PS 3320 also states "The mere fact that an estimate of an amount is involved (measurement uncertainty) does not, in and of itself, constitute the type of uncertainty that characterizes a contingent asset. For example, even though there may be measurement uncertainty related to income tax receivable, there is nothing uncertain about the fact that this asset exists. Any uncertainty is related solely to the amount thereof" (Section PS 3320 paragraph .07). Based on past history of surplus utilization for OTPP and based on the constating documents, expected future benefits for the Government are present. The uncertainty as with many types of assets relates to measurement uncertainty which will be discussed below.

6.4 Conclusion on recognition

Therefore the Province has concluded that PSAS supports the recognition of a pension plan asset in respect of a joint defined benefit plan and does not require that all recognized assets must be subject to unilateral control. The Province's share of OTPP's pension surplus meets the definition of an Accrued Benefit Asset under Section PS 3250. The measurement of that accrued benefit asset is determined by reference to the guidance in Section PS 3250 regarding the Limit on the Carrying Amount of an Accrued Benefit Asset, discussed in Question 3 of this position paper.

7.0 Question 3 – Measurement of a pension asset

7.1 Standards in the PSA Handbook

Section PS 3250 addresses how to measure a pension asset. This is a two-step process for OTPP. Firstly the accrued plan obligation (a Credit) and the plan assets (a Debit) are measured in accordance with the standard, and adjusted for any unamortized actuarial gains or losses (a Debit for gains not yet realized, a Credit for losses not yet realized). This measurement results in a retirement benefit liability when it is a net liability (a Credit) amount or an accrued benefit asset when it is a net asset (a Debit) amount. When the resulting amount is an asset, the standard requires a second step to test

that the asset is not impaired. It should be noted that impairment testing in some form is required for all assets recognized under PSAS standards except those carried at fair value, although the methodology of impairment tests will vary depending on the nature of the asset. The amount that is tested is the “adjusted benefit asset”. When there are net unamortized gains the ABA is equal to the adjusted benefit asset. When there are net unamortized losses the ABA is reduced by those net unamortized losses to calculate the adjusted benefit asset. A graphical illustration of the calculation of the Accrued Benefit Asset (AcBA) and the Adjusted Benefit Asset (AdBA) are shown in appendix C. Section PS 3250 paragraphs .052 to .059 go on to explain what the standard means by expected future benefit and how a government may benefit from the ABA or adjusted benefit asset. Note that for OTPP the accrued benefit asset equals the adjusted benefit asset as there are net unamortized actuarial gains.

Section PS 3250 paragraphs .050-.059 are included here for completeness and ease of reference:

Limit on the carrying amount of an accrued benefit asset (i.e. Asset Ceiling Test)

.050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs. [SEPT. 2001]

.051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).

.054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.

.055 The objective of the standard in Section PS 3250 paragraph .050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.056 A government determines its expected future benefit as the sum of:

a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and

b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.058 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Section 3250 paragraph .052 states that a government may benefit from an ABA by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions. This is an explanatory paragraph on how a government may benefit from an ABA and why a valuation

allowance may be needed, rather than detailing the test to be applied. Part of this justification is to note that that an ABA may be impaired when “the government is not entitled to benefit from [the ABA] fully”. Examples of when a government may not be entitled to benefit from the ABA fully are given, such as a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government’s legal right to use a plan’s accounting surplus.

Section PS 3250 paragraph .059 gives additional guidance to apply when an entity contemplates realizing future benefits through a surplus withdrawal: “A key factor in determining a government’s expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal”. This introduces the concept of a legally enforceable right but only in the context of a government’s withdrawal of surplus and not in the context of contribution holidays. If the standard setters had intended legal enforceability to be the test throughout the standard, they would not have raised it only in the context of a withdrawal of surplus, but as a more fundamental notion in the guidance on expected future benefit.¹⁰

It is acknowledged that the Province does not have a unilateral legal right to reduce its contribution levels without agreement from the OTF because OTFP is by nature a JDBP subject to shared control, they are entitled to an equitable share of the risks and rewards of the JDBP, essential to the definition of a JDBP. Section 3250 paragraph .052 does not state that being “entitled to benefit” means having a legally enforceable right as at the reporting date to take contribution holidays. When considering the ability to realize expected future benefits under Section PS 3250 paragraph .052, the Province’s legal rights to utilize a surplus to reduce future contributions must be analyzed. Our interpretation of this guidance is that it presents a lower threshold than legal enforceability which is not explicitly required by the standard to support recognition and measurement of JDBP pension assets. Specifically, the amount of pension asset that gets recorded needs to take into account considerations around any legal uncertainties. This consideration involves significant professional judgment. However, it is our view that uncertainty does not need to be reduced to zero in order to recognize a pension asset in the Public Accounts. Pension plans, by their nature, include significant estimates - whether they be related to the value of assets held by the plan that are not publicly traded (e.g. investments in private companies and real assets) or in the present value of the projected benefit obligation that is based on a series of economic assumptions related to inflation, salary escalation, mortality and the rate of return that the assets in the plan will earn over the period that benefit payments are paid to pensioners. Any change in these assumptions will have an impact on the accounting surplus, so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole. Further, the term used to describe the cap in the asset ceiling test is “expected future benefit”. Expected does not equate to certainty or the absence of uncertainty (Section PS 3250 paragraph .056).

¹⁰ Per page 10 of the October 2, 2016 dated letter from Deloitte LLP addressed to Ms. Karen Hughes, Associate Deputy Minister, Treasury Board Secretariat

Under the Plan and Partners' Agreement, if funding surpluses occur the partners are required to negotiate the use of the funding surplus (at least once every three years) and the Province is entitled to negotiate a reduction in contributions in respect of its share of the surplus. Under the Partners' Agreement any funding surplus must be dealt with (which includes the option of parking the surplus in the contingency reserve) so that the funding valuation becomes actuarially balanced. *In other words when there is a funding surplus over a certain range the "status quo" cannot be maintained, the surplus must be reduced by a combination of reductions in contributions, increases in benefits or withdrawals of surplus.* This is confirmed by the Partners' Agreement Section 57 that requires an actuarially balanced valuation to be prepared at least once every three years, allowing for a contingency reserve, combined with the FMP which sets out the framework for determining when a surplus or deficit outside of agreed upon ranges are met and action must be taken. While the Province might choose to accept an increase in member benefits rather than to reduce funding, any such decision is at the Province's discretion since the OTF cannot force the Province to increase benefits instead of reducing contributions. In other words it is at the Province's discretion whether to address the actuarial balancing requirements by allowing its portion of the surplus to be utilized through increased benefits. The OTF equally has the right to not agree to reduced contributions from the Province, but they do not have the right to force an inequitable sharing of the surplus. Therefore, the Province is entitled to negotiate their share of the JDBP which may include taking contribution holidays in future negotiations and can effectively use their power in negotiations to benefit from the ABA. The joint partners do have the ability to renegotiate all aspects of the partners' agreement including the FMP. However all changes require the agreement of both parties and as such the Province can veto any changes to the agreement. Note that while the negotiations are based on funding surplus amounts rather than accounting surplus amounts, any differences would be captured in the mechanics of the calculation of the expected future benefit rather than precluding an ability to benefit from any of the accounting surplus.

Further, Section PS 3250 paragraph .055 indicates "The objective of the standard in Section PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions". Many generally accepted accounting frameworks use "expected" in a number of principles and it is typically used in the probabilistic sense – something is expected when it is probable at some level, it does not equate to certainty. The Province has an expectation that they will benefit fully from the ABA by exercising their current rights under the plan arrangements to negotiate the use of current and future surpluses in the form of contribution holidays. This position is supported by the review of the constating documents and past history of negotiations that indicate¹¹:

1. The TPA prohibits the total amount of the contributions payable by the Province (and other participating employers) from exceeding the amount of contributions paid by or on behalf of

¹¹ Per pages 3 to 6 of the September 20, 2016 dated letter from Osler, Hoskin & Harcourt LLP addressed to Len Hatzis and Paul Kaufman, Treasury Board Secretariat Legal Services

active members in respect of credited service for the year¹² (subject to certain exceptions for payment of a solvency deficiency and where there are insufficient cash and liquid assets in the fund). In practice, this has resulted in 50/50 sharing of the regular contribution costs between the participating employers (including the Province) and plan members since the OTPP became jointly sponsored.

2. The history of surplus utilization after the OTPP became a jointly sponsored plan and prior to the date that the FMP was established demonstrates a past practice of the sponsors equally sharing (in the aggregate) the financial benefits of surplus utilization, although surplus was not shared equally each time (refer to Appendix G for a history of surplus utilization for OTPP). Since the time the FMP was established, the OTPP has not reached the requisite level of surplus such that the sponsors could negotiate its utilization under the Temporary Improvement Zone or Permanent Improvement Zone.
3. The inability for either party to unilaterally require surplus to be utilized in a particular manner (subject to the OTF Call Right¹³)¹⁴, and the requirement to negotiate and agree (or in the absence of agreement, mediate and/or arbitrate) presents the Sponsors with an equal opportunity to benefit from surplus utilization.
4. One could argue that the obligation to bargain in "good faith" found in the Partners' Agreement (section 74) may include the obligation to take into account the "sharing" principles described elsewhere in this opinion, given that the OTPP is a jointly-sponsored plan. Under the plan, contributions are generally borne equally by the Province and the employees. Employees benefit economically from both an increase in benefits and from a reduction of contributions. The Province benefits economically directly from a reduction in contributions. This makes it reasonable that at least some contribution reductions would be agreed to by the joint sponsors as a highly unequal weighting towards increases in benefits would not balance the interests of taxpayers and teachers therefore may be unlikely to be a reasonable outcome of "good faith" negotiations between the Province and the OTF.

This is further supported by the historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses, and therefore, which should also be considered. In respect of conditional indexing, reduced indexation for current retirees was matched by an increase in payments by the Province for the first 50% of the indexation reduction. As the sponsors agreed to utilize the funding surplus to partially restore indexation, this restoration of indexation resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of \$7.8 billion (\$4.3B for the 2016 change, \$1.98B for the 2015 change, and \$1.68B for the 2014

¹² TPA, subsection 5(1.1)

¹³ The OTF Call Right is a one-time arrangement intended to compensate Plan members for absorbing 100% (rather than 50%) of funding shortfalls arising the government initiated Freeze period. Part of a previously agreed upon arrangement to ensure equitable sharing of the risks and rewards over the long term of the plan, it is not a general unilateral right to utilize future surpluses beyond the recovery of the specific funding shortfalls.

¹⁴ FMP, section 6.03

change). This demonstrates that historically and over the long term an equitable sharing of the deficits and surpluses has resulted in changes in the Province's contributions, even when there are decreases or increases to benefits for employees.

5. In the event that the sponsors cannot agree upon how surplus is to be utilized in the Restoration Zone, the Temporary Improvement Zone or the Permanent Improvement Zone, a mediator may be chosen by agreement of the sponsors (section 77 of the Partners' Agreement). If the sponsors do not accept the report of the mediator, an arbitration board will be appointed (section 84 of the Partners' Agreement). The arbitration board would consist of three arbitrators. Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, the arbitral award must meet certain mandatory conditions set forth in the Partners' Agreement. Among other things, the arbitral award is required to ensure that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement).

As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described herein: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

Based on the above analysis, the Province believes that the uncertainties around how and when to utilize a surplus in the OTPP do not result in an inability or lack of entitlement to utilize the surplus in accordance with Section PS 3250 paragraph .052.

7.2 Calculating the limit on the carrying amount of an accrued benefit asset

Section PS 3250 paragraphs .053 to .058 lay out a mathematical calculation that determines the value of the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in Section PS3250 paragraph .055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future."

The expected future benefit is further described as “a calculated amount representing the benefit a government expects to realize from a plan surplus”, where actual realization of the benefit would be reflected in a reduction in future contributions. A valuation allowance is recorded against the pension asset to limit the asset value, if necessary, based on this analysis. This is a prescriptive test under Section PS 3250, specifically that the amount of an asset is limited to the “expected future benefit” as defined in Section 3250 paragraph .56.

Therefore in accordance with Section PS 3250 paragraph .56 the Province calculated the expected future benefit as the sum of:

- a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
- b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

Each of these is discussed separately.

7.3 Considerations re: withdrawal of the surplus (Section PS 3250 paragraph .056 (b))

In relation to the ability of a government to benefit from a surplus through the withdrawal of the surplus, Section 3250 paragraph .059 indicates “The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal.”

The TPA for OTPP does not specify a method for a potential withdrawal of surplus funds. Section 10(1), item 3 states:

10(1) The Minister of Education and the executive of The Ontario Teachers' Federation may enter into an agreement that provides for the following matters:

- 3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members.

Therefore, the conditions under which a surplus may be withdrawn from the fund is outlined outside of the text of the TPA itself, as OTF and the Province must reach mutual agreement on these terms in the form of the OTPP Funding Management Policy, as envisioned in Section 10(1).3 above.

Section 4.06 of the OTPP Funding Management Policy states:

Side Agreement: The commitment value shall be used to provide a surplus distribution referred to in Section 4.04(d) or a temporary benefit improvement referred to in Section 4.04(e) only if the partners have entered into a written agreement governing the manner in which the contributions by the Minister and the Employers may be adjusted to offset any surplus distribution or temporary improvement of benefits that is reflected in the value of the liabilities.

4.04(d) and 4.04(e) refer to actions that may be taken in the event that "...assets exceed current liabilities" (Section 4.04), meaning a surplus.

As Section 4.06 stipulates, a written agreement must be established between the sponsors (the Province and the OTF) to provide a surplus distribution. The Province does not have a legally enforceable right to withdraw assets from OTPP until such an agreement is reached.

The consent of the OTF would need to be obtained to be able to access surplus assets in OTPP through a withdrawal. As the Province does not have consent of OTF to withdrawal the plan surplus (for example at the end of fiscal year 2015-16), no expected future benefit should be recognized by the government based on its ability to withdrawal surplus from the plan.

The Province's position is that there is no amount of expected future benefit included in respect of withdrawable plan surplus.

7.4 Considerations re: reduced future contributions (Section PS 3250 paragraph .056 (a))

Section PS 3250 paragraph .056(a) sets out that the government's calculation of expected future benefit would be the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus. Note that in the case at hand, the calculations are done on a 50% basis since the starting point, per Section PS 3250 paragraph.081 and as set out in the fact summary above, is that the government accounts for its portion of the Plan. For this same reason, employee contributions are also excluded in this case since they would represent the teachers' portion of the Plan.

Section PS 3250 paragraph .055 indicates that the expected future benefit is a calculation that represents the benefit a government expects to realize from a plan surplus. The expected future benefit would operate as a ceiling on the pension asset value to be recorded in the accounts. For example, if the pension asset were \$150, but the expected future benefit calculated as described above were \$100, a valuation allowance of \$50 would be recorded against the pension asset and the asset recorded in the government's financial statements would be reduced to \$100.

There are two parts to the calculation of expected future benefit. The first part of the calculation is the sum of the present value of the expected future accruals for service for the current number of active

employees. This amount is required to be calculated using consistent assumptions as those used for the calculation of the accrued benefit obligation itself. It is therefore relatively straightforward and is typically calculated based on the Province's share of the current service cost reported in the actuarial valuation taken into perpetuity unless there is evidence to indicate the workforce will significantly diminish over time (for example a closed plan).

The second part of the calculation is the present value of required employee contributions and minimum required contributions by the government itself, regardless of any surplus. The main area for judgment in the above calculation is in this second part of the calculation. Note that consistent with the calculation of the expected future accruals for service, no amounts are considered for employee contributions as these relate to the OTF's portion of the plan. The number of years that contributions are assumed in determining the asset ceiling are those minimum contributions that are required to be made "regardless of any surplus" (Section PS 3250 paragraph .056(a)). There is no further guidance in Section PS 3250 as to how the calculation of minimum required contributions should be performed and what restrictions or parameters should be factored into this calculation. Typically for defined benefit plans minimum contributions include those that are required by the pension regulator to be made for funding. However, minimum contributions regardless of any surplus, may be required by plan text, legislation or other agreements with employees. For OTPP a key element of judgment is determining what contributions are required by the current plan arrangements "regardless of any surplus". The constating agreements for OTPP require that the parties negotiate every 3 years as a minimum, and when there is a funding surplus.

Determining the number of years of contributions to include should involve an assessment of the facts and circumstances of the plan and should consider uncertainty. With respect to this uncertainty, there are a number of considerations that may be relevant. Uncertainties should be evaluated taking into consideration the contractual agreements between the sponsors that provide for the sharing of risks and benefits and specifically in respect of assessing the minimum contributions required by the plan agreements (there is no minimum contributions stipulated in the Plan text, legislation or Partners' Agreement) including the following:

- One view of minimum contributions might be that the agreed upon level of contributions are the minimum contributions until they are altered in the plan text. As this can only happen with agreement from OTF it cannot be assumed that changes will be made and therefore that the contribution formula as stated in the current agreements will continue in perpetuity. This view provides the most conservative view of minimum payments. However as the current contribution amounts are greater than the government's share of the annual current service cost for the existing workforce this indicates that continued contributions at this rate will result in ever increasing surpluses. Extrapolating the surpluses, at a certain point other requirements that are currently incorporated into the plan text, such as provisions in the Income Tax Act that limit the accumulation of surplus in a plan will apply to reduce the contributions. The effect of these caps on contributions would have to be estimated but cannot be ignored as they form part of the current contribution arrangements. Modelling could be performed to develop

expectations as to when these CRA limits could be expected to be reached assuming no changes in the contribution levels. As is the most conservative view (highest minimum contributions) the impact of this has been considered, as discussed below.

- An alternative view of the minimum contributions required by the plan is that there is a contractual obligation under the Partners' Agreement that the Province and OTF negotiate and set both the benefits and the contributions every three years. A failure to agree might lead to mediation or arbitration, but not an assumption of the 'status quo'. On this basis it could be argued that any agreed upon contribution levels are mandatory for only a three year period, after which the contributions must be renegotiated to stay the same, increase or decrease, such that the stated contribution level in the plan text constitute minimum payments for only three years. It should be noted that the plan text requires an actuarially balanced funding valuation, so to the extent that a funding deficit currently existed a contribution holiday (contributions lower than the annual cost of the plan) could not be negotiated. However because the funding situation at the time of future negotiations is not known it could be argued that no amount is a fixed "minimum contribution" in this context, because all of the contribution amount is subject to future changes in funding and negotiation by the joint sponsors.
- Other views of what the minimum contributions are would fall between these two views, such as that the current funding level is set to ensure that there is no funding deficit over a 11 year period and after that changes in contributions would be negotiated. This view has been used in calculating the actuarial calculation of the asset ceiling as noted in the table below.
- Another consideration might be the specific framework within the Funding Management Plan for OTPP which contemplates specified funding zones and expectations regarding possible contribution reductions by the sponsors. Informed stochastic modelling would be necessary to estimate when the different funding zones will be reached and probability of contribution reductions may be increased.
- The historical actions of the parties, which reflect a history of working together to resolve both funding deficits and use of funding surpluses should also be considered. As previously discussed, most recently in 2014, 2015 and 2016 with respect to OTPP, the sponsors agreed to use some of the funding surplus to restore indexation, which resulted in a decrease in the amount of future contributions that the Province would have otherwise had to pay to the plan in the amount of \$7.8 billion (\$4.3B for the 2016 change, \$1.98B for the 2015 change, and \$1.68B for the 2014 change).

In determining the range of possible outcomes, it is noted that measurement uncertainty may exist (Section PS 2130 paragraph .03). This paragraph also notes that many items are measured using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. As noted in Section PS 2130 paragraph .13, "As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best

estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements.”

As part of the 2015/16 Public Accounts audit, the Office of the Provincial Controller engaged external consultants to conduct asset ceiling tests to assess the requirement for a valuation allowance against the \$10.1 billion of net pension assets reported by the Province for OTPP . The results of those reports are summarized in Table 1 below.

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions	Expected Future Benefit or Asset Ceiling (\$ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation that is required even if a surplus is present.	\$44.6	The expected future benefit (EFB) as at March 31, 2016 exceeds the Adjusted benefit asset. There is no valuation allowance created and no reduction in the balance sheet asset position.
2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period covered by the current funding report. Contribution requirements are therefore \$1.7B per year for 2015, 2016 and 2017.	\$41.8	The minimum contribution requirement applies to the period covered by the funding report until a new report is completed. We do not know the minimum funding requirement after that date. EFB is reduced as of March 31, 2016 by the present value of the minimum contributions of \$1.3B in 2016 (9 months left) and \$1.7B in 2017. Still EFB exceeds the Adjusted benefit asset.
3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of expected special contribution requirement (i.e. 11 years through 2026).	\$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. When special contribution is present, the basic contribution cannot be reduced either. Once special contribution ends (2026) expected situation is surplus using the Province accounting best estimate assumption for asset return. The EFB at March 31, 2016 is reduced by \$15.3B. Still EFB exceeds the

		Adjusted benefit asset.
4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus above the threshold is used at 50% for employees in benefit improvement and 50% for the Province to reduce contributions in the following years.	\$23.2	The ITA surplus limit is reached at the end of 2024, leading to forced contribution reductions from 2025. The EFB is reduced by \$21.4B at March 31, 2016. Still EFB exceeds the Adjusted benefit asset.
5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue unused. Once the unused portion attains the ITA threshold, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.	\$14.2	The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. The EFB is reduced by \$30.4B at March 31, 2016. Still EFB exceeds the Adjusted benefit asset.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of \$10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of \$14.2 billion is greater than the accrued pension asset of \$10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

For purposes of OTPP, 11 years has been used. However, it is worth noting that up to 33 years of contributions could be factored into this calculation before the calculation would result in a conclusion that the OTPP asset is impaired.

In addition to the above calculations, the impact of the provision in the Income Tax Act that limits the amount of surplus that can be held in a plan should also be considered. Based on preliminary analysis assuming no changes to management's assumptions, contribution levels and benefits

provided to employees, we believe that the OTPP will be required to begin using its surplus through a reduction in contributions in between 10 and 15 years into the future. Taking this timing into account, the pension asset ceiling is in excess of the pension asset recognized (pension asset ceiling of between \$19.9 Billion and \$22.3 Billion); therefore indicating that no valuation allowance is required.

The determination of the minimum contribution levels required as input to the calculation of the expected future benefit involves significant judgements, estimation and assumptions about future funding surplus levels. These judgements, estimates and assumptions should be made on a consistent basis with best estimates used in developing the accrued benefit obligations and plan asset amounts. Regardless of the need to apply judgements, estimates and assumptions for the calculation, this does not imply that no asset can be recognized or that it cannot be reliably measured. In fact, pension plans, by their nature, include significant estimates - whether they be related to the value of assets held by the plan that are not publicly traded (e.g. investments in private companies and real assets) or in the present value of the projected benefit obligation that is based on a series of economic assumptions related to inflation, salary escalation, mortality and the rate of return that the assets in the plan will earn over the period that benefit payments are paid to pensioners. Any change in these assumptions will have an impact on the accounting surplus, so to apply a test requiring no uncertainty to the recognition of an asset is inconsistent with the accounting for pension plans as a whole. Further, the term used to describe the cap in the asset ceiling test is "expected future benefit". From the Province's perspective, 'expected' does not equate to 'certainty' or the absence of uncertainty.

The assumptions used in the calculation of the accrued benefit obligation are required to be the "government's best estimate of expected long-term experience and short-term forecasts" (Section PS 3250 paragraph .042) and each key assumption must be based on the government's best estimate of those future events that have an effect on the accrued benefit obligation (Section PS 3250 paragraph .041). This approach is designed to recognize the long-term nature of the retirement promises with appropriate consideration of, but not undue influence of, experience expected in the short-term. Section PS 3250 paragraph .057 requires that the future service cost calculation included in the calculation of the valuation allowance be determined on a consistent basis with that used to determine the accrued benefit obligation itself. The Province has determined the discount rate to be used in valuing the pension obligation related to OTPP by referencing the expected rate of return on plan assets, which is one of the acceptable references suggested on Section PS 3250 paragraph .044.

The OAG and the Province differ in their interpretation regarding whether it needs to be "expected" that the Province will benefit from the surplus in OTPP through future contribution reductions or whether it needs to be "legally enforceable". The OAG considers there needs to be the same level of assurance the government will benefit from the surplus through reduced contributions (legal enforceable) as is required in Section PS3250 paragraph .059. The Province considers that it needs to be expected that future economic benefits are to be obtained reflected in the definition of "expected future benefit" defined in the glossary to Section PS 3250 with consideration as to uncertainties as to the right to benefit from a plan surplus.

7.5 Other guidance in the PSA Handbook on measurement

MEASUREMENT UNCERTAINTY, Section PS 2130 provides guidance on dealing with measurement uncertainty through additional disclosure in the financial statements, which we believe would be a useful addition to the financial statements. Section PS 2130 also provides guidance on how to deal with measurement uncertainty and includes the following guidance:

.12 The estimation of the amount of an item to be accrued or disclosed in financial statements may be based on information that provides a range of amounts. When a particular amount within such a range appears to be a better estimate than any other, that amount would be used. When uncertainty exists, estimates used would attempt to ensure that assets, revenues and gains are not overstated and that liabilities, expenses and losses are not understated. Estimates of the financial effect are determined using professional judgment, supplemented by experience of similar transactions and, in some cases, reports from independent experts. Estimates include any additional evidence provided by subsequent events occurring after the financial statement date.

.13 As a result of the estimation process, a government would be able to determine a range of reasonably possible amounts in accordance with assumptions that are realistic, supportable, internally consistent, and consistent with planned courses of action. The range of reasonably possible amounts would exclude amounts at the outer edges of possibility since such amounts, while possible, are considered to be outside the best estimate range. Relevant information available to the government to develop a reasonable range includes past experience, precedents, and opportunities to reach alternative arrangements.

The estimate of the valuation allowance, and in fact pension plan accounting as a whole, is subject to measurement uncertainty. As previously noted, accounting for pension plans involves significant estimates in all aspects of the accounting whether that be in valuation of non-traded assets, estimation of the economic assumptions used to value current service cost and the projected benefit obligation or the valuation allowance. One of the key assumptions impacting the measurement of the net pension asset is the discount rate which reflects management's best estimate of rate of return. The rate used by the government is an acceptable alternative under PSAB and consistent with rates followed by other senior Canadian governments. Actual historical results since the inception of the plans corroborate the reasonableness of the rates used by management and the continued appropriateness for purposes of determining pension expense and pension assets reported in the Public Accounts. Appendix J includes a comparison of the OTPP funding rate assumptions, the Provincial discount rate for OTPP and the actual performance of OTPP from 2005 to 2016. Historical rates of return on plan assets have supported the past discount rates used by the Province in relation to OTPP.

7.6 Impact of valuation allowance

The current Auditor General's view challenges previous interpretations of the Provincial Controller and former Auditor Generals regarding the interpretation and application of Section PS 3250 to those JDBPs where the government is a joint sponsor. The impact of the OAG's view is that no net pension asset should be recognized in the Province's Public Accounts for JDBPs until the joint sponsors agree to a change in the plan text to provide for unilateral authority to the Province to access surplus or reduce future contributions or the sponsors enter into an agreement by year-end enabling the government to take a contribution holiday. In the absence of meeting either the criteria set out by the Auditor General, any ABA would therefore be fully provided for through a valuation allowance, impacting each year's statement of operations by the amount by which the asset would otherwise increase in value. These results are counterintuitive with pension expense being higher in years in which increased funding is made and also higher when poor investment returns create actuarial losses that have not yet been amortized into the statement of operations. These examples are illustrated in Appendix C.

For information purposes, refer to Appendix H for a comparison of the pension expense, surplus (deficit), net debt and net debt-to-GDP of the Province over the prior 10 years following the Auditor General's approach to pension accounting for OTTP compared with following the Province's interpretation of the PSAS. Of particular note is the impact in 2008 when the deficit would have been lower by \$3 billion in a year when pension asset values fell significantly because of the financial crisis.

7.7 Comparability of Ontario's accounting to other Provinces defined benefit plans

Not all of the jurisdictions noted in this comparative overview have joint defined benefit plans. Furthermore, the specific terms and conditions of any jurisdiction's plans will determine the appropriate accounting under PSAS. This information is provided for reference purposes only and has no direct impact on the Province's accounting treatment for OTTP or other defined benefit plans on the Province's financial reports.

The Province of British Columbia does have a jointly sponsored pension plan. Appendix I provides details from a legal opinion prepared by lawyers, Koskie Minsky which compared access to the pension surplus of OTTP relative to JDBPs in British Columbia. The Province of British Columbia does not report a pension asset in their financial statements as the Province has given up any rights to the surplus in the Joint Trust Agreements. The provision was established to support the independence of the four pension plan Boards. As a result the accounting by British Columbia is appropriately different than the accounting by Ontario for OTTP.

The Province of Manitoba has a multi-employer defined benefit plan for their healthcare employees. The Province neither records the net pension liability or the net pension asset on their financial statements as the Province is not a direct sponsor of the plan. The Province of Manitoba appropriately reduces the accrued benefit asset to nil in accordance with Section PS 3250 paragraph .050 as the

Province does not expect future benefits from any plan surplus in contrast to OTPP and the Province of Ontario.

The Province of Nova Scotia's Public Service Superannuation Plan transitioned to a joint governance structure in April 1, 2013. Due to the wording of the legislation, the Province has determined it no longer has any residual liability for the plan, and therefore has no entitlements to its assets. The legislation and funding policy alleviated the Province from any responsibility to fund shortfalls or to benefit from fund surpluses. As a result, the Province no longer records a net pension asset or liability in their financial statements. The Province of Nova Scotia therefore appropriately reduces the accrued benefit asset to nil in accordance with Section PS 3250 paragraph .050 as the Province does not expect future benefits from any plan surplus in contrast to OTPP and the Province of Ontario.

Quebec has two joint sponsored plans: Government and Public Employees Retirement Plan, and Pension Plan Management Plan. These plans are structured such that employee and employer contributions are in separate funds. Currently both of these plans are in net pension liability positions.

In New Brunswick, the target benefit pension plans are governed by an Agreement and Declaration of Trust which restricts the Province's access to the plan assets. On this basis, the Province records the value of the plan net assets as nil when these plans are in a net asset position. These plans are shared risk plans that are governed by a Board of Trustees to which the Province has appointed one-half of the members. The Plans are jointly funded by employees and the Province. These target benefit plans target retirement benefits as opposed to guaranteeing them. Two of the four target benefit plans are in a net asset position, where a full allowance is taken by the Province against the net pension asset. The Province of New Brunswick appropriately reduces the accrued benefit asset to nil in accordance with Section PS 3250 paragraph .050 (there is no specific guidance on target benefit plans in PSAS) as the Province does not expect future benefits from any plan surplus in contrast to OTPP and the Province of Ontario.

As noted above, the constating documents for pension plans in other provinces are different than those of OTPP, therefore caution should be exercised when trying to compare accounting among the jurisdictions, or others.

7.8 Conclusion on measurement

As discussed, there is significant professional judgement and estimation in determining how to measure the valuation allowance under Section PS 3250, including the determination of the minimum contributions required by the current plan arrangements. It is the Province's position that the attributes of the JDBP arrangements for the OTPP entitle the Province to access its portion of any plan surplus through the right to negotiate its use to the Province's benefit and that this results in an expected future benefit through the use of any plan surplus through reduced contributions.

The Province has applied reasonable estimates of the plan's funding status necessary to determine what minimum contributions are required under the current plan contribution arrangements. Based on the

results of various actuarial assessments for the asset ceiling test date, no valuation allowance appears to be required and the OTPP pension assets should continue to be recorded on the books of the Province.

Appendix A – Pension liability (asset) and expense reported by the Province of Ontario for OTPP over the prior 14 years

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)						
\$ Millions						
Fiscal Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
50% Pension Liability (Asset) Reflecting Accounting Policy for Joint Plans						
Accrued benefit obligation, closing balance	27,544	32,185	33,660	35,505	37,045	40,186
Less: pension fund assets (market related values), closing balance	(34,390)	(36,215)	(37,929)	(39,579)	(41,396)	(44,347)
Unamortized experience gains (losses)	6,066	2,750	2,646	2,112	2,028	1,493
Adjustment for different year ends	421	436	449	472	497	523
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	642	507	383	256	135	20
Pension liability (Asset) at March 31 Reported before any valuation	282	(336)	(791)	(1,233)	(1,691)	(2,126)
Valuation Allowance	-	-	-	-	-	-
Pension Liability (Asset) after valuation Allowance	282	(336)	(791)	(1,233)	(1,691)	(2,126)
50% Pension Expenditure Reflecting Accounting Policy for Joint Plans						
Current period benefit cost	650	770	848	868	878	955
Amortization of experience gains	(568)	(235)	(247)	(222)	(233)	(234)
Pension interest expenditure	(353)	(374)	(250)	(272)	(261)	(281)
Cost of plan amendment	-	2,260	-	-	-	-
Less: recognition of unamortized experience gains	-	(2,260)	-	-	-	-
Amortization of Other amounts	(134)	(131)	(130)	(132)	(134)	(135)
Pension expense before valuation	(405)	29	221	241	250	305
Expense increase (reduction) in valuation Allowance	-	-	-	-	-	-
Pension Expense after valuation Allowance	(405)	29	221	241	250	305

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)						
\$ Millions						
Fiscal Year	2006-07	2007-08	2008-09	2009-10	2010-11	
50% Pension Liability (Asset) Reflecting Accounting Policy for Joint Plans						
Accrued benefit obligation, closing balance	41,560	44,178	46,011	48,304	49,559	
Less: pension fund assets (market related values), closing balance	(47,425)	(52,459)	(53,479)	(54,556)	(57,123)	
Unamortized experience gains (losses)	2,888	4,560	2,617	277	772	
Adjustment for different year ends	529	650	687	764	774	
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	(114)	54	136	206	220	
Pension liability (Asset) at March 31 Reported before any valuation	(2,562)	(3,016)	(4,027)	(5,005)	(5,799)	
Valuation Allowance	-	-	-	-	-	
Pension Liability (Asset) after valuation Allowance	(2,562)	(3,016)	(4,027)	(5,005)	(5,799)	
50% Pension Expenditure Reflecting Accounting Policy for Joint Plans						
Current period benefit cost	998	1,051	1,118	1,175	1,217	
Amortization of experience gains	(235)	(355)	(557)	(458)	(294)	
Pension interest expenditure	(258)	(381)	(536)	(481)	(397)	
Cost of plan amendment	-	-	-	-	-	
Less: recognition of unamortized experience gains	-	-	-	-	-	
Amortization of Other amounts	(146)	38	34	30	(4)	
Pension expense before valuation	359	354	60	266	523	
Expense increase (reduction) in valuation Allowance	-	-	-	-	-	
Pension Expense after valuation Allowance	359	354	60	266	523	

Ontario Teachers' Pension Plan (excluding Retirement Compensation Plan)					
\$ Millions					
Fiscal Year	2011-12	2012-13	2013-14	2014-15	2015-16
50% Pension Liability (Asset) Reflecting Accounting Policy for Joint Plans					
Accrued benefit obligation, closing balance	51,847	52,977	54,762	56,901	58,184
Less: pension fund assets (market related values), closing balance	(57,843)	(59,932)	(65,434)	(71,538)	(78,499)
Unamortized experience gains (losses)	(1,648)	(1,237)	1,851	4,816	9,001
Adjustment for different year ends	799	826	853	882	895
Other Unamortized Amounts (initial unfunded liability, difference in contributions, etc.)	222	242	257	273	272
Pension liability (Asset) at March 31 Reported before any valuation	(6,623)	(7,124)	(7,711)	(8,667)	(10,147)
Valuation Allowance	-	-	-	-	10,147
Pension Liability (Asset) after valuation Allowance	(6,623)	(7,124)	(7,711)	(8,667)	-
50% Pension Expenditure Reflecting Accounting Policy for Joint Plans					
Current period benefit cost	1,283	1,396	1,327	1,462	1,451
Amortization of experience gains	(245)	(91)	35	(156)	(362)
Pension interest expenditure	(495)	(387)	(457)	(707)	(939)
Cost of plan amendment	-	-	-	-	-
Less: recognition of unamortized experience gains	-	-	-	-	-
Amortization of Other amounts	(24)	(26)	(30)	(31)	(33)
Pension expense before valuation	519	892	875	569	118
Expense increase (reduction) in valuation Allowance					1,480
Pension Expense after valuation Allowance	519	892	875	569	1,598

Appendix B – Guidance in the various constating documents for OTTP relating to use of the surplus and the sharing of responsibilities

Pension Benefits Act (PBA) and the regulations (PBR)
While they do address surplus withdrawals, the PBA and PBR do not otherwise mandate any particular use of ongoing surplus that may arise in a pension plan, e.g. for benefit improvements or contribution holidays. One must therefore look to the Teachers' Pension Act and to the Partners' Agreement and Funding Management Policy in order to determine how ongoing surplus is dealt with under the OTTP.
Teachers' Pension Act (TPA)
Paragraph 10(1)3 of the TPA provides that the Minister of Education and the executive of the OTF may enter into an agreement (i.e., the Partners' Agreement) that provides for certain matters, including: "3. The sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund by the Minister, the employers who contribute under the plan and the active plan members". This is a fundamental legislative pronouncement that the Province and the members of the plan are meant to "share" both upside (surplus) and downside (deficit) under the plan. Although it is not an express statement of 50/50 sharing, it would presumably inform the expectations of the sponsors regarding how any surpluses are to be utilized. Pursuant to Section 10 of the TPA, the Minister of Education and the OTF (collectively the sponsors) have entered into an agreement for the management of the Plan (Partners' Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the Partners' Agreement. The FMP provides a framework for the funding of the Plan and how deficits and surpluses will be addressed. The Partners (sponsors) can deviate from the FMP by agreement.
Partners' Agreement
The Partners' Agreement is between the Province of Ontario and the OTF and sets out the formal relationship between the partners (sponsors) in sponsoring the OTTP. Paragraph 8 of the Partnership Agreement states that the partners will be responsible for designing the Plan structure, setting the benefits of the Plan, developing new policy, deciding what the contribution rate will be, what the funding levels, margins and contingency reserves will be, how to make changes to the Plan and other Plan documents, deciding whether or not to file a valuation more frequently than required by the PBA, appointing the OTTP Board, and defining the role of the Board. Section 10 requires that the partners meet and negotiate changes to the plan every three years. Section 19 of the Partners Agreement sets out the responsibilities of the OTTP Board, and does not confer any authority on the OTTP Board to change benefits or contribution rates that are provided under the OTTP. This means that the OTTP Board has no authority to use ongoing surpluses either to improve benefits or reduce contributions. Only the sponsors to the OTTP have the authority to utilize ongoing surpluses. Section 19 also requires the Board to prepare a valuation at least every three years to comply with the PBA. Paragraph 57 requires a valuation prepared for filing with the Superintendent of Financial Services to be

actuarially balanced so that the present value of benefits and costs to be paid out of the fund (plus any contingency reserve) be equal to the present value of sponsor contributions. An actuarial valuation for funding purposes of the pension fund shall be prepared by the Board's actuary as at the 1st day of January and filed annually with the Superintendent of Financial Services, unless the partners jointly agree to instruct the Board not to file the valuation. The partners shall establish a committee to deal with accounting matters relating to joint pension plan sponsorship and agree to contact the Public Sector Accounting Board to raise issues of concern to the partners.

Paragraphs 58 to 60 indicate the actions to be taken based on the preliminary results of a valuation prepared for filing with the Financial Services Commission of Ontario. If the valuation indicates a need to increase the contribution rate, the partners need to meet as soon as possible to discuss how to adjust for that need on an equally shared basis. If the valuation indicates the contribution rate can be decreased, the actuarial gain can be applied to reduce the payments required to liquidate any unamortized balance of a solvency deficiency.

The process governing the use of ongoing surpluses by the sponsors is set out in the Partners' Agreement. It anticipates that the OTPP Board will prepare an actuarial valuation of the OTPP every three years (section 73).

Paragraph 74 requires negotiation in good faith regarding changes to the Plan that flow from a valuation that is to be filed with the regulators.

Paragraph 75 of the Partners' Agreement requires the sponsors to advise the Board of OTPP of what changes affecting benefits and contribution rates they are proposing so that the Board can provide cost estimates and comments on the administrative impact of the changes to both partners as soon as possible.

Section 77 of the Partners' Agreement anticipates that the sponsors may appoint a mediator to assist them and sections 84 and 86 of the Partners' Agreement provide for the appointment of a Board of Arbitration to make a final and binding order with respect to the utilization of an ongoing surplus disclosed by the actuarial valuation. A Board of Arbitration is empowered to change contribution rates and/or benefits under the Plan, or to keep an amount of surplus in reserve, but is subject to certain limits that are set out in section 92.

If the sponsors cannot agree on the changes required to the Plan, a mediator is appointed to assist the sponsors in coming up with an agreement. The mediator is responsible for submitting a report to the sponsors on his or her views on the positions of the partners and provide a recommendation to the sponsors. If the sponsors do not accept the mediator's report, the arbitration process will begin and an arbitration board will be appointed. The board will consist of 3 people, with each partner selecting one representative and two appointees will select the final member who is an umpire. Paragraph 94 of the Partners' Agreement indicates that the report created by the arbitration board will be implemented.

Paragraph 92 sets some parameters for the arbitration, including part (c), which sets out that the parameters that the award of the arbitration will provide that the contributions from the Minister and employers be equal to those of the members.

The mediation/arbitration process would not be triggered unless there is an actuarial valuation to be filed with the regulators that requires the sponsors to agree on how any surplus or deficit is to be addressed. If a valuation is prepared in a year when no filing is required (filings generally only being required every three years), and the sponsors do not agree to file the valuation, then the sponsors do not necessarily have to address funding and benefit issues and therefore no negotiations may occur.

In addition to the clauses identified above, the Partners' Agreement has an appendix called the Funding Management Policy which sets out the sponsors' responsibilities in making funding decisions and surplus allocation regarding the Plan.

Funding Management Policy (FMP)

The FMP is an appendix to the Partners' Agreement that speaks to how the Plan should be funded and how surpluses should be utilized by both parties. The protocol for the use of a surplus under the OTPP is detailed in the FMP adopted by the Ontario Government and OTF as sponsors of the OTPP. The FMP sets out a complex series of considerations surrounding funding management and the use of any excess of assets over liabilities. The FMP sets out a number of "funding zones", depending on the level of funding in the Plan. The following three are most relevant to addressing surpluses:

- i) Restoration zone (Article 3 of the FMP) allows for a surplus to be utilized to "restore" foregone indexation and then to either increase benefits to the "run-rate benefit" level (i.e., the long-term target level) or to lower contributions (or a combination of these two options) (Section 3.06(e)).
- ii) Temporary improvement zone (Article 4 of the FMP) is the zone where contributions can be temporarily reduced, a surplus distribution can be made on a temporary basis and/or benefits can be temporarily improved (as long as it does not create a long term cost) (Section 4.05).
- iii) Permanent improvement zone is where the Plan is essentially fully funded and has the funding security desired to support permanent changes. Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. In this regard Section 5.05 provides for actions that can be taken in respect of the amount that assets exceed current liabilities. Such actions can include changes to current benefits, current contributions, or both.

The ability to reduce contributions or increase benefits through the temporary or permanent improvement zone are subject to ensuring that the requirements of 3.06 in the restoration zone are met. Article VIII of the FMP sets out that the parties must agree to any changes arising out of FMP decisions. For filing valuations, if the sponsors are unable to agree the mediation process set out in the Partners' Agreement, the arbitration process outlined in the Partners' Agreement will be followed. For valuations that are not filed, either party can decide not to negotiate.

The Plan is currently in the Restoration Zone. Contributions to the OTPP currently include a 1.1% special contribution on all earnings and that the Restoration Contribution Reduction under Section 3.06(e) would if agreed to by both sponsors, permit this special contribution to be eliminated. This special contribution is scheduled to end in 2026.

If the Plan gets to either the temporary improvement zone or the permanent improvement zone, section 4.06 and subsection 5.05(b) of the FMP provides that a benefit improvement can only occur if the sponsors (the Ontario government and the OTF) have entered into a written agreement governing the manner in which the contribution by the government and other employers may be adjusted to offset any surplus distribution or benefit improvement (temporary or permanent) to be granted.

Section 8.01 of the FMP provides the following:

Section 8.01 Unless the sponsors mutually agree to the contrary, they shall follow the procedures described in paragraphs 74 to 100 when determining the plan changes arising from Section 3.07.

The Partners' Agreement and the FMP contain no general arbitration clause governing all disputes relating to the agreement, although Section 14 of the Partners' Agreement provides for the possibility of voluntary arbitration. There has been no instance where the arbitration provisions have been invoked by the parties since the FMP was established. OTPP's internal legal counsel, has indicated that the arbitration provisions in the FMP would be expected to apply to disputes relating to the utilization of surplus under each of these provisions.

Where a matter has been submitted to arbitration, case law has established that the agreement between the parties that is being arbitrated is the fundamental source of subject matters that come within the arbitration board's jurisdiction. The parties are free to design their own procedures, including setting the scope of the arbitration board's jurisdiction and specifying the potential outcomes of the arbitration (subject to certain default appeal rights and mandatory grounds to set aside an award under the Arbitration Act). The arbitration board is empowered to make binding decisions because of the arbitration agreement, including any limitations on that authority. Canadian courts have traditionally granted deference to arbitration awards.

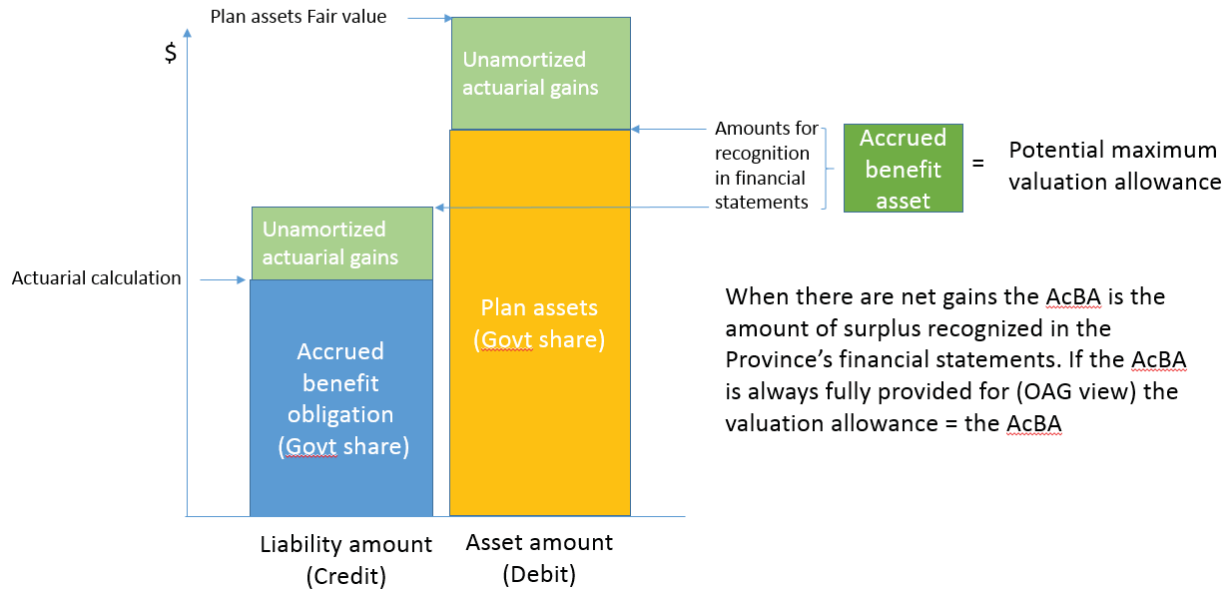
Arbitration provisions are generally procedural in nature and therefore do not provide a strong foundation upon which to base parties' reasonable expectations about their substantive rights under an agreement. To resolve a dispute, the arbitration board would engage in an exercise in interpretation of the operative substantive provisions of the relevant governing documents, including any applicable statutory provisions. However, as noted above, under section 92 of the Partners' Agreement, the arbitral award must meet certain mandatory conditions. Among other things, the arbitral award is required to provide that the contributions of the Minister and those employers who are required to contribute are equal to the contributions of members (section 92(c) of the Partners' Agreement). The arbitration board does not have discretion to ignore this mandatory provision, although the provision

would need to be given effect within the context of the relevant documents and applicable statutes, interpreted as a whole, and other relevant factors, such as past conduct of the parties. As part of the arbitration board's interpretation exercise of the relevant governing documents, in the event of ambiguity in the written terms of the documents, evidence of the parties' post-agreement practices can be admitted as an aid to interpreting the agreement. Past practices may illustrate the parties' intentions at the time of the agreement. These considerations of past practices would be in conjunction with any explicit mandatory considerations set out in the governing document, e.g. prevailing economic conditions and the overall state of the provincial economy under section 91 of the Partners' Agreement. The past practices which the arbitrator may consider would include those described above: the long history of 50/50 member/employer contributions to the plan, and the equal sharing of surpluses prior to 2003 (from 2003 onwards the plan was mostly in deficit, with surpluses used to restore foregone escalated adjustments for members).

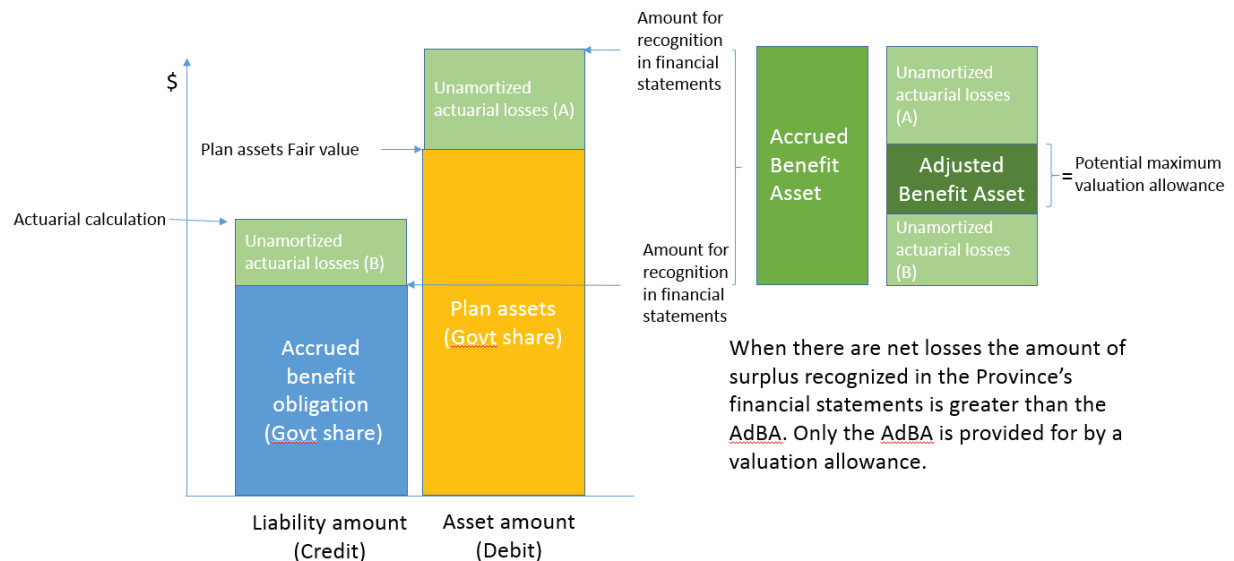
Appendix C – Overview of a Valuation Allowance on Pension Assets

An Accrued Benefit Asset (AcBA) occurs when there is a plan surplus, including the effect of net unamortized experience gains or losses. OTPP currently has net unamortized experience gains.

Actuarial (experience) gains can occur in respect to both plan assets as well as the pension obligation



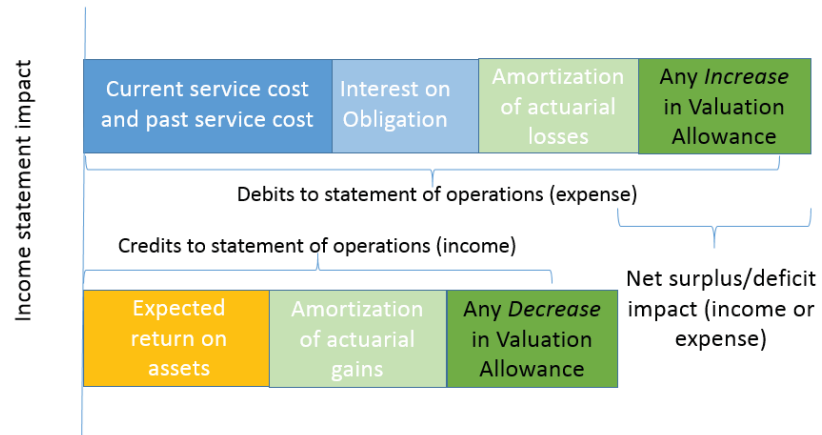
An Adjusted Benefit Asset (AdBA) is required when there are unamortized losses



Components of Expense

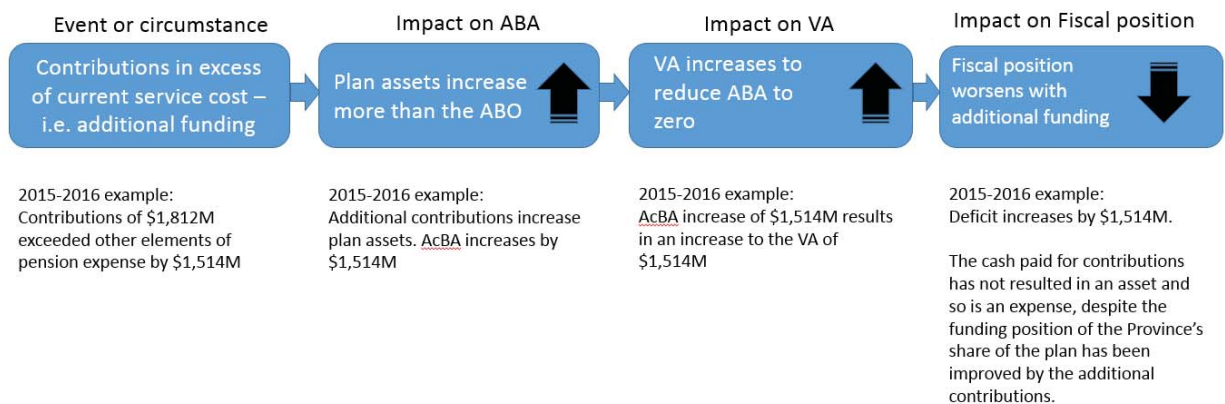
The *change in* the valuation allowance flows directly through the statement of operations.

The change in valuation allowance = the change in the AcBA (or AdBA if applicable)



Changes in the Accrued Benefit Asset

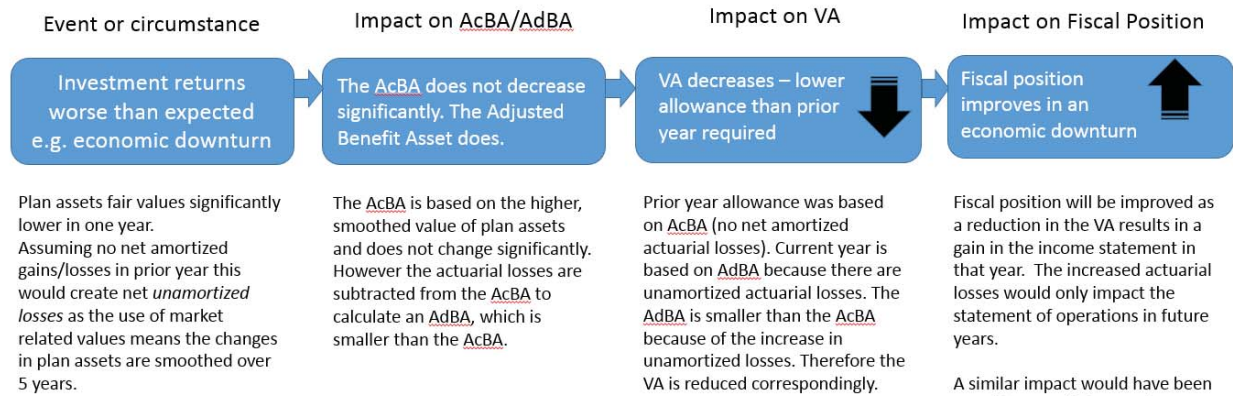
Changes in the AcBA may occur for a number of reasons. Where changes result in an increase in the AcBA without expectation of future benefit, such changes would result in a change in the valuation allowance (VA) to effectively reduce the AcBA to zero. In this situation, the following impacts on the statement of operations would be noted ¹



¹ Impact of change, all other elements being held constant.

Changes in the Accrued Benefit Asset

Continuing from the previous slide, where valuation allowances are taken to effectively reduce the value of the AcBA to zero, in the year of a reduction in the value of the AcBA or AdBA, where an economic downturn occurs for example, the following impacts on the statement of operations would be noted ¹



¹ Impact of change, all other elements being held constant.

Appendix D – Summary of different valuation methodologies for pension valuations

The following table summarizes the main similarities and differences in assumptions and methodologies used for i) OTPP's funding valuation, ii) the financial statements of OTPP, prepared under CPA Canada Handbook – Accounting Part IV and iii) actuarial valuation of the Province's share of OTPP prepared for the province under Public Sector Accounting Standards.

Assumption/ methodology	Funding valuation (Going concern basis)	Accounting Part IV of the CPA Canada Handbook – (OTPP Financial statements)	Accounting PSAS – (Province Financial statements)
Purpose	To inform plan sponsors of the amount that needs to be contributed each year to adequately fund benefits and to provide information on the financial position of the plan as of the valuation date on a funding basis in accordance with the Pension Benefits Act, the Income Tax Act as well as generally accepted actuarial practice.	Financial statements [of pension plans] provide information about the pension plan including net assets available for benefits, pension obligations and the financial position of the plan as of the valuation date in accordance with Part IV of the CPA Canada Handbook (Part I of the CPA Canada Handbook (i.e. IFRS) is referred to where Part IV is silent).	Measure and report the obligation for employee retirement benefits, attribute the costs of those benefits to the periods in which the related services are rendered and to provide information on the financial position of the plan in accordance with PSAS.
Actuarial cost method	Modified aggregate method (level cost method)	Projected benefit method prorated on services	
Asset valuation	The actuary should select an asset valuation method that is consistent with the circumstances of the work. The value of assets may be, subject to specific requirements for different types of valuation, any of: • Their market value; • Their market value adjusted to moderate volatility in	Fair value for all plan assets. Fair value is determined in accordance with IFRS 13, <i>Fair value measurement</i>.	PSAS allows choice regarding the valuing of plan assets at market-related value. Market-related values, are defined as either market values or amounts adjusted to market values over a period not to exceed five years, applied

	investment returns; • The present value of their cash flows after the calculation date; and • Their value assuming a constant rate of return to maturity in the case of illiquid assets with fixed redemption values For funding valuation, the plan uses the actuarial value of assets which are the market value of assets adjusted for investment gains / losses spread over a period of 3 years.		consistently. The Province has chosen to value OTPP's plan assets by adjusting to market value over a period of 5 years in accordance with PSAS.
Discount rate	Best estimate less Margins for adverse deviations and expenses where appropriate. For funded plans, the best estimate may be either the expected investment return on the assets of the pension plan at the calculation date and the expected investment policy after that date, OR reflect the yields on fixed income investments, considering the expected future benefit payments of the pension plan and the circumstances of the work For the purpose of the funding valuation, the plan uses a	Part IV notes that guidance on determining the defined benefit obligation can be found in EMPLOYEE FUTURE BENEFITS, Section 3462, in Part II of the Handbook, and in IAS 19 Employee Benefits in Part I of the Handbook. OTPP follows Part I (IAS 19) which requires the use of government bonds when no deep market for high quality corporate bonds exists. Per their financial statements OTPP uses a discount rate based on bonds issued by the Province of Ontario. As	Not specified. However two methods are specifically acknowledged in PSAS – a) discount rates determined by reference to plan asset earnings and b) discount rates determined by reference to the government's cost of borrowing.¹⁵ The Province of Ontario uses a discount rate for OTPP determined by reference to the expected long-term return on plan assets. The discount rate used

¹⁵ The Public Sector Accounting Board has formed an Employment Benefits Task Force to examine a number of aspects of the existing Public Sector Accounting Standard dealing with retirement benefits, including consideration of the discount rate. To date there have been no due process documents and no indication as to the direction of the PSAB in respect to discount rates.

	discount rate which is based on market related rates averaged over a period of 36 months. The discount rate used in the most recent funding valuation for OTPP as at January 1, 2015 was 4.85%.	illustrated in Appendix E, this is inconsistent with other Provincial pension plans in Canada which use as a discount rate, the long-term rate of return on plan assets. The discount rate used by OTPP in their December 31, 2015 financial statements was 3.25%.	by the Province to account for OTPP in their March 31, 2016 financial statements was 6.25%. This is the long-term rate of return on plan assets which is in accordance with PSAS.
Independent verification		OTPP's financial statements are audited by Deloitte LLP.	The Province's financial statements are audited by the OAG.
Underlying population data	All valuations use consistent underlying data of the population covered by the plan (membership data as at August 30 of the prior year projected to the valuation date is used].		
Inflation rate	All valuations treat inflation in a consistent manner (on a best estimate basis). Best estimate assumptions are derived based on the best estimate of future events. Best estimates of inflation by the Province may be different from those of the OTPP Board, even though they are both best estimate assumptions. In developing its best estimate assumptions, the Province references a broad range of available data, including the best estimate from the OTPP Board.		
Demographic assumptions	Valuations use consistent demographic assumptions (best estimate by the OTPP Board).		
Other economic assumptions	The OTPP Board develops its own salary escalation assumption to be used for both the funding and the Board's financial statement valuation. Economic assumptions other than the discount rate, inflation rate and salary assumptions are determined by the Board. These are the same for funding valuation and the Board's financial statement valuation.	The Province prescribes the future salary escalation rates. The Province develops this assumption by referencing the outcome of the most recent collective agreements as well as compensation policies issued from time to time by the government and the historic increases	

		granted.

Appendix E - Comparison of the discount rates used by Provincial pension plans across Canada relative to the discount rate used by OTPP

Review of Discount Rates Across Jurisdictions

- In the inter-jurisdictional review of all funded provincial sponsored or joint sponsored plans which also have stand-alone plan financial statements:
 - the Ontario Teachers' Pension Plan (OTPP) is the only plan where the discount rate used in the plan's financial statements is more than 50 basis points below the discount rate used by the province.
 - OTPP stand-alone financial statements use the market rate of Provincial bonds.
- All other plans' financial statements (i.e. 23 plans across jurisdictions) use the long-term rate of return as the discount. The discount rate used by the plans' are lower than 50 basis points or less than the provinces' discount rate or at times higher than the provincial rate.



Plan's discount rate is lower than the provincial rate by more than 50 bps

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario					
Ontario Teachers' Pension Plan (OTPP)	6.25%	LT return on plan assets	ON 1	3.25%	Market rate of Provincial Bonds



Plan's discount rate is lower by 50 bps or less (or higher than the provincial rate)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Ontario					
Ontario Public Service Employees Union Pension Plan (OPSEUPP)	6.25%	LT return on plan assets	ON 2	5.75%	LT return on plan assets
Healthcare of Ontario Pension Plan (HOOPP)	5.75%	LT return on plan assets	ON 3	5.65%	LT return on plan assets plus margin
Colleges of Applied Arts and Technology Pension Plan (CAATPP)	6.00%	LT return on plan assets	ON 4	5.70%	LT return on plan assets
Ontario Public Service Pension Plan (PSPP)	6.00%	LT return on plan assets	ON 5	5.95%	LT return on plan assets
Alberta					
Teachers' Post-1992 Pension Plan	6.80%	LT return on plan assets	AB 1	7.00%	LT return on plan assets
Universities Academic Pension Plan	6.00%	LT return on plan assets	AB 2	5.95%	LT return on plan assets

3

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Alberta (cont'd)					
Local Authorities Pension Plan	5.60%	LT return on plan assets	AB 3	5.60%	LT return on plan assets
Public Service Pension Plan	6.00%	LT return on plan assets	AB 4	6.00%	LT return on plan assets
Management Employees Pension Plan	6.10%	LT return on plan assets	AB 5	6.10%	LT return on plan assets
Provincial Judges and Master In Chambers Pension Plan	5.40%	LT return on plan assets	AB 6	5.80%	LT return on plan assets
Supplementary Retirement Plan for Public Service Managers	6.00%	LT return on plan assets	AB 7	6.00%	LT return on plan assets
Special Forces Pension Plan	5.90%	LT return on plan assets	AB 8	5.90%	LT return on plan assets

4

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Saskatchewan					
Saskatchewan Healthcare Employees' Pension Plan (SHEPP)	6.50%	LT return on plan assets	SK 1	6.50%	LT return on plan assets
British Columbia					
Public Service Pension Plan	6.50%	LT return on plan assets	BC 1	6.50%	LT return on plan assets
Municipal Pension Plan	6.50%	LT return on plan assets	BC 2	6.50%	LT return on plan assets
Teachers' Pension Plan	6.50%	LT return on plan assets	BC 3	6.50%	LT return on plan assets
College Pension Plan	6.50%	LT return on plan assets	BC 4	6.50%	LT return on plan assets

5

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Quebec					
Commission administrative des regimes de retraite et d'assurances	6.50%	LT return on plan assets less inflation	QC 1	6.40%	LT return on plan assets less inflation
Newfoundland					
Memorial University of Newfoundland Pension Plan	6.30%	LT return on plan assets	NF 1	5.80%	LT return on plan assets
Nova Scotia					
Nova Scotia Public Service Superannuation Plan (PSSP)	6.70%	LT return on plan assets	NS 1	6.15%	LT return on plan assets
Nova Scotia Teachers' Pension Plan (TFP)	6.75%	LT return on plan assets	NS 2	6.25%	LT return on plan assets

6

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
Manitoba					
Civil Service Superannuation Plan	6.00%	LT return on plan assets	MB 1	6.00%	LT return on plan assets plus inflation
Teachers Pension Plan	6.25%	LT return on plan assets	MB 2	6.00%	LT return on plan assets
New Brunswick					
Provincial Court Act and Provincial Court Judges Pension Act (JUDGE)	6.15%	LT return on plan assets		No individual financial statements	
Pension Plan for Management Employees of New Brunswick School Districts (Sch-Mgt)	6.05%	LT return on plan assets		No individual financial statements	
Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts (GLTS)	6.05%	LT return on plan assets		No individual financial statements	
Pension Plan for Full-Time CUPE 2745 Employees to New Brunswick School Districts (CUPE 2745)	6.05%	LT return on plan assets		No individual financial statements	

7

Plan's discount rate is higher than the provincial rate (or lower by 50 bps or less) (cont'd)

	Provincial Nominal Discount Rate	Basis of Provincial Nominal Discount Rate	PLAN REF#	Plan's Nominal Discount Rate	Basis of Plan's Nominal Discount Rate
New Brunswick					
NH-Hgt, NH-G&S, NH-N&P (i.e. NH Nursing Home)	6.20%	LT return on plan assets		No individual financial statements	
CUPE Employees of New Brunswick Hospital (shared risk)	5.45%	LT return on plan assets		No individual financial statements	
Certain Bargaining Employees of New Brunswick (shared risk)	5.70%	LT return on plan assets		No individual financial statements	
Public Service Shared Risk Pension Plan	6.00%	LT return on plan assets		No individual financial statements	
New Brunswick Teachers' Pension Plan (shared risk)	6.15%	LT return on plan assets		No individual financial statements	

8

Appendix F – Comparison of definitions of a Joint Defined Benefit Plan and Government Partnership

The definition of a government partnership is provided in GOVERNMENT PARTNERSHIPS, Section PS 3060 paragraph .06. Section PS 3060 was introduced into the Public Sector Accounting (PSA) Handbook in October 1999.

The definition of a joint defined benefit plan is provided in the glossary to RETIREMENT BENEFITS, Section PS 3250. Section PS 3250 was introduced into the PSA Handbook subsequent to Section PS 3060 in September 2001.

Both standards use similar wording in the definitions of a government partnership and of a joint defined benefit plan illustrating the development of Section PS 3250 considered the content in Section PS 3060.

Below is a comparison of the two definitions as currently in the PSA Handbook (consistent wording between the two definitions are underlined):

	Definition of a government partnership (GP)	Definition of a joint defined benefit plan (JDBP)	Comparison
Introductory paragraph	A government partnership is not a government organization but <u>is a contractual arrangement² between the government and a party or parties outside of the government reporting entity³ that has all of the following characteristics:</u>	A joint defined benefit plan <u>is a contractual arrangement between the government and another sponsor or sponsors representing plan participants that has all of the following characteristics:</u>	Consistent in concept with the wording in the GP definition being more general.
Criteria 1	(a) the partners <u>co-operate toward achieving significant clearly defined common goals;</u>	(a) the sponsors <u>co-operate toward achieving the significant clearly defined common goal</u> of providing retirement benefits in exchange for services rendered by the employees;	
Criteria 2	(b) the partners make a financial investment in the government partnership;	(b) funding contributions are shared mutually between the government and the plan members, represented by the non-government sponsor;	Consistent in concept with the definition of a GP focusing on investments in the partnership and the definition of a JDBP

			focusing on contributions into the plan.
Criteria 3	(c) the partners <u>share control of decisions related to the financial and operating policies of the government partnership on an ongoing basis</u> ; and	(c) the sponsors <u>share control of decisions related to the administration of the retirement benefit plan and to the level of benefits and contributions on an ongoing basis</u> ; and	Consistent in concept with the wording in the GP definition being more general.
Criteria 4	(d) the partners <u>share, on an equitable basis, the significant risks</u> and benefits associated with the operations of the government partnership.	(d) <u>the significant risks</u> associated with the retirement benefit plan are <u>shared on an equitable basis</u> between the government and the plan members, represented by the non-government sponsor.	
Concluding paragraph	<u>The contractual arrangement establishes that the parties have shared control over the government partnership, regardless of the difference in their ownership interest. Nevertheless, overall, there must be an equitable relationship between the financial investment of the government in the government partnership, the extent of control it is able to exercise over the activities of the government partnership, and the risks and benefits that accrue to the government from the government partnership.</u> Government partnerships	<u>The contractual arrangement establishes that the sponsors have shared control over the retirement benefit plan, and ensures that neither party is in a position to control the plan unilaterally. Nevertheless, overall, there must be an equitable relationship between the funding by the government of the retirement benefit plan, the extent of control it is able to exercise over the plan and the risks and benefits that accrue to the government from the plan.</u>	

	may be structured as operations under shared control, assets under shared control or organizations under shared control. [Former paragraph PS 3060.06 retained in Archived Pronouncements.]		

In addition to consistent wording, the concepts in the definitions of a government partnership and a JDBP are similar.

While similar in concept and wording, the definition of a JDBP is more specific than the general definition of a government partnership. GOVERNMENT PARTNERSHIPS, Section PS 3060 is a general standard for all types of government partnerships. Alternatively RETIREMENT BENEFITS, Section PS 3250 addresses specific types of employee retirement benefits including JDBPs.

There is one principle in the JDBP paragraphs in Section PS 3250. Paragraph .081 indicates “*When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans.* [SEPT. 2001]”. This principle is consistent with the proportionate consolidation method included in Section PS 3060.

Appendix G – History of Surplus Utilization for OTPP

The history of OTPP surplus utilization from the time the OTPP became a jointly sponsored pension plan to the date that the FMP was established (in March 2003) demonstrates a past practice of the sponsors equally sharing (in the aggregate) the benefits of surplus utilization:

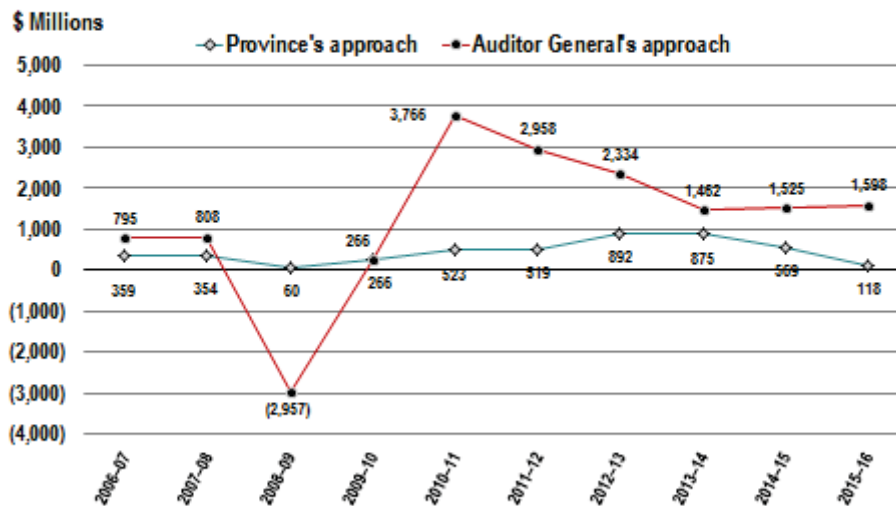
Valuation Date	Surplus/(Deficit)	OTF	Ontario Government	Surplus Remaining
1993	\$1.5 billion	\$325 million to offset social contract days	Eliminated special payments for \$1.2 billion saving	\$0
1996	\$0.7 billion	\$0.6 billion for benefit improvements and RCA contributions	N/A	\$0.1 billion
1998	\$6.8 billion	\$2.2 billion for benefit improvements	\$4.6 billion to reduce the value of remaining special payments	\$0
1999	\$3.5 billion	N/A	\$3.5 billion to reduce the value of remaining special payments	\$0
2001	\$6.8 billion	\$6.2 billion for benefit improvements	N/A	\$0.6 billion
2002	\$1.9 billion	Sponsors agreed not to make any changes to benefits or contributions		\$1.9 billion
Total		\$9.3 Billion	\$9.3 Billion	

Although surplus utilization prior to 2003 may not have been 50/50 each time, from 1993 to 2002 the aggregate value obtained by each of the sponsors was equal. In certain instances where the Province received a disproportionate share of the financial benefits from surplus utilization, a commitment was made to the OTF that they would receive future surplus available for utilization. In 1998, \$6.8 billion in surplus was utilized to cause a \$2.2 billion benefit improvement and to provide the Province with a \$4.6 billion reduction in the value of special payments owed by the Province. As part of this negotiation, the OTF and the Province agreed to allow future surplus to be utilized to eliminate the Province's remaining special payments (which resulted in \$3.5 billion surplus being utilized in 1999 to reduce the value of the Province's remaining special payments) and a commitment was made for the next \$6.2 billion in surplus to be available to OTF for benefit improvements (such surplus being utilized for benefit improvements in 2001).

Appendix H - Illustrative impact of 100% valuation allowance on OTPP on key indicators for prior 10 years

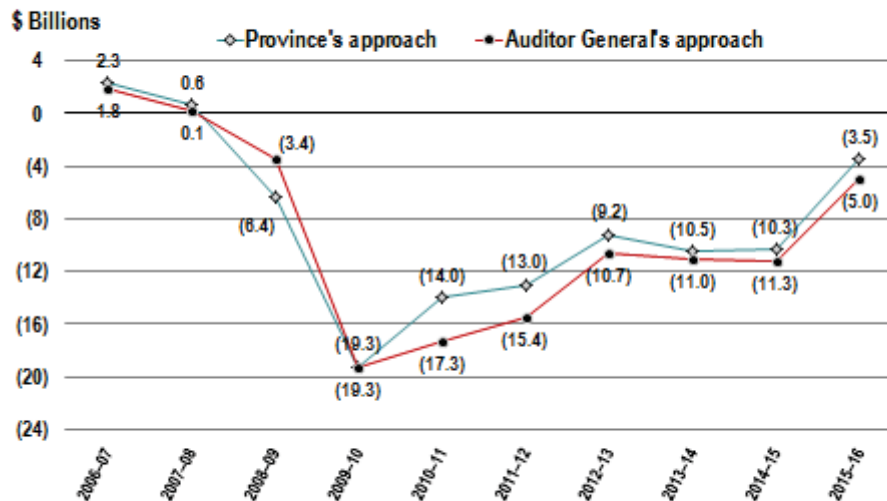
OTPP expense comparison — 10-year

Chart 1



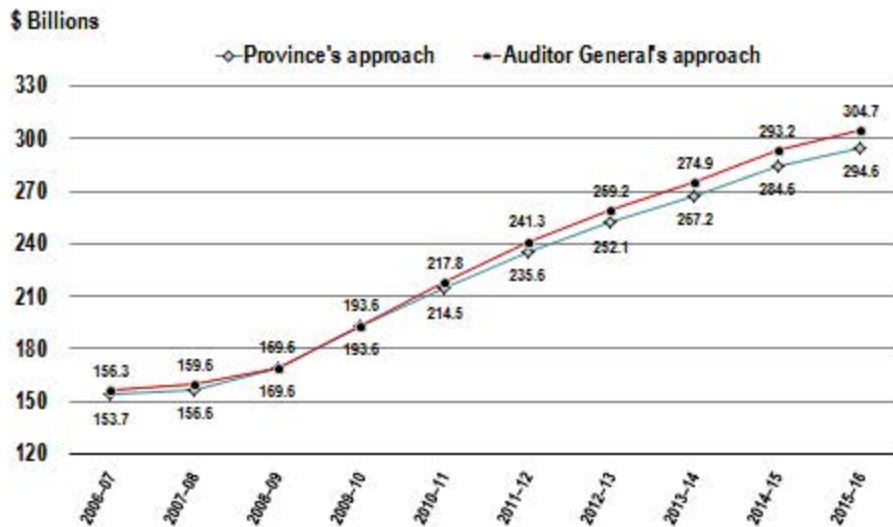
Surplus/(deficit) comparison — 10-year

Chart 2



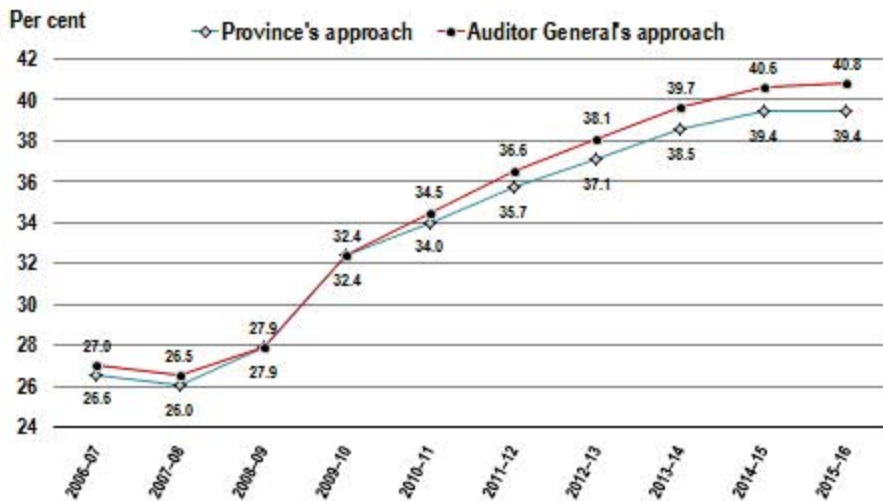
Net debt comparison — 10-year

Chart 3



Net debt-to-GDP comparison — 10-year

Chart 4



Appendix I – Analysis of the British Columbia pension plans in relation to OTPP (prepared by lawyers, Koskie Minsky)

BRITISH COLUMBIA PLANS

In British Columbia, the Municipal Pension Plan, the Colleges Pension Plan, the Teachers' Pension Plan and the Public Sector Pension Plan were all converted from employer sponsored pension plans to jointly sponsored plans in accordance with the Public Sector Pension Plans Act, S.B.C. 1999, c.44 (the PSPPA").

A. British Columbia Municipal Pension Plan (the "MPP")

The MPP is governed by:

- (a) Municipal Pension Plan Joint Trust Agreement (consolidated), updated to September 30, 2015 (the "MPP Trust Agreement"); and
- (b) Municipal Pension Plan Rules effective April 1, 2000 (current to November 19, 2015).

Under the MPP Trust Agreement, the following rules govern the Sponsors of the MPP and the Board of Trustees of that arrangement in regard to Plan surpluses:

The Board of Trustees may amend the MPP to utilize surpluses under section 11.5, provided that the conditions in 11.5(a) and (b) are met. These provisions permit the Board of Trustees to utilize Plan surpluses to improve Plan benefits for Plan members, provided that the surplus is sufficient to fund the benefit improvement "based on the open group of Plan Members and using a twenty-five year amortization schedule for the Plan actuarial excess to be used to fund the benefit improvement". Any benefit improvement made by the Board of Trustees cannot result in increased contribution rates nor can it create an unfunded liability. Any such improvement must also be consistent with the Trustees' fiduciary responsibilities. Within these parameters, however, the Board of Trustees of the MPP does have the authority to utilize Plan surpluses on an ongoing basis.

The MPP Partners may also amend the MPP using ongoing surpluses in accordance with section 11.3 of the MPP Trust Agreement. This section permits the Partners to direct the Board of Trustees to amend the Plan rules and requires the Board of Trustees to comply with that direction so long as three conditions are met: (a) the Partners first receive and consider the advice of the Board respecting the proposed amendment, (b) the proposed amendment is compliant with the Trustees' fiduciary responsibilities and (c) the proposed amendment will not result in the Plan failing to be funded in accordance with the PBSA going concern funding requirements. Significantly, the MPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners'

Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Accordingly, under the MPP, both the Partners and the plan administrator may utilize Plan surpluses by amending the Plan terms in regard to either or both of contribution rates and benefits.

It should be noted that, during a Transitional Period, the use of actuarial gains in the MPP is prescribed by Appendix "B" to the MPP Joint Trust Agreement. During the Transitional Period, all gains must first be used to eliminate unfunded liabilities. Then, actuarial gains must be applied to both (a) reconfigure employer contribution rates and (b) make specified benefit improvements. Employer contribution rates are to be reconfigured by eliminating the 'doubling' feature of employer contribution rates applicable to employees in certain Plan membership categories once they reach either 45 or 50 years of age (depending on the employment category). The transitional provisions prescribe the new base rates for each of the 5 categories of members in the BC, but also stipulate that employer contribution rates for two of the five categories will be increased beyond those base rates to reflect the differential current service cost for those two groups. The surplus implications of the reconfiguration of employer contribution rates are not predictable, and depend, at least in part, on the relationship between the 'base rates' under the transitional provisions and the actual rates being paid by employers at the time of the reconfiguration. Once the employer contribution rates are reconfigured and the specified benefit improvements are made, then 50% of any additional actuarial excesses must be used to fund a contribution rate stabilization reserve, and the balance of the actuarial excess must be transferred to the Inflation Adjustment Account to an aggregate total of \$1 billion. The contribution rate stabilization reserve is intended to be shared on an equal (50/50) basis between Plan members and employers in order to maintain or reduce future contribution rates. Until such time as the objectives identified for the Transitional Period are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

B. British Columbia Public Service Pension Plan ("PSPP")

The PSPP Joint Trust Agreement contains provisions regarding the authority of the Partners and the Board of Trustees to utilize ongoing surpluses that are equivalent to the provisions cited above with respect to the MPP. Accordingly, under the PSPP, both the Partners and the Board of Trustees have the authority, in the circumstances and subject to the conditions described in relation to the MPP, to utilize ongoing surpluses to reduce contributions or improve Plan Member benefits.

In this regard, section 10.3(c) of the PSPP Joint Trust Agreement expressly provides the Board of Trustees¹⁶ with the authority to apply ongoing surpluses (the term used in the PSPP Joint Trust Agreement is "surplus assets") in one or more of the following manners:

1. transfer all or portions of surplus assets to the reserve established within the Pension Fund for stabilising contribution rates;
2. transfer all or portion of the surplus assets to the Inflation Adjustment Account;
3. apply all or a portion of the surplus assets to an equal reduction or elimination of Employer and Plan Member contributions to the Basic Account for a period of time;
4. apply all or a portion of the surplus assets to fund changes to the PSPP's benefit provisions provided that any change to benefits does not result in contribution rate increases, does not create or increase an unfunded liability, is consistent with the Trustees' fiduciary obligations and does not conflict the requirement (in s. 13.5) that, upon the termination and wind-up of the PSPP any remaining assets are to be equally shared between the employees and the employers.

At the same time, as is the case for the MPP, the Partners have the authority, pursuant to s.11.3 of the PSPP Joint Trust Agreement, to direct the Board of Trustees to amend the PSPP Plan rules and change either or both of the PSPP's contribution rates or benefits so long as the Partners have received and considered the advice of the Board respecting both the cost and administrative impact of any proposed amendments, the amendment is not inconsistent with the Trustees' fiduciary responsibilities or any funding policy adopted by the board and the proposed amendment will not result in the PSPP failing to be funded in accordance with British Columbia's Pension Benefits Standards Act. Significantly, the PSPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the MPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

Section 15.4 of the PSPP Joint Trust Agreement provides that certain benefit improvements must be made using Plan surpluses that are identified in actuarial valuations dated March 31, 2001 and March 31, 2002. Unlike with respect to the MPP, the PSPP does not appear to have an indefinite 'Transitional Process' that commits all ongoing surpluses until the Transitional objectives are accomplished. Rather, the PSPP Trustees and Partners have had discretionary authority with respect to ongoing PSPP surpluses

¹⁶ It is noteworthy that s. 14(c) of the PSPP Joint Trust Agreement stipulates that the Trustees are not acting in a fiduciary capacity when they make decisions that apply ongoing surpluses, and may take account of the financial and other interests of the party that appointed them.

C. British Columbia Teachers Pension Plan ("TPP")

The TPP is governed by:

- (a) a Joint Trust Agreement made as of April 2, 2001 between Her Majesty the Queen in right of the Province of British Columbia as represented by the Minister of Finance and Corporate Relations (the "Government") and the British Columbia Teachers' Federation ("BCTF");
- (b) the TPP Rules.

The Joint Trust Agreement contains provisions permitting both the Partners and the TPP Board of Trustees to amend the Plan rules using ongoing Plan surpluses (section 11 of the Joint Trust Agreement). These provisions are the equivalent of the MPP Joint Trust Agreement provisions regarding the same matters, as described above. In particular, it is significant that the TPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution for either Partner in the event that they cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses.

As well, Appendix "B" to the TPP Joint Trust Agreement adopts special funding rules for a "Transitional Period" during which the Board of Trustees is directed to use surpluses to achieve specified contribution and benefit improvement outcomes. The transitional objectives for the TPP are not the same as for the MPP, although they entail both contribution rate changes and benefit improvements. In the case of the TPP, however, the transitional provisions build in a 4% reduction in the employer contribution rate from its July 1, 2010 level. As with the MPP, the Transitional Period is of indefinite duration, and only ends when the transitional objectives have been satisfied. During the transitional period, all ongoing surpluses are committed to the transitional objectives and no ongoing surpluses are available for discretionary reductions in contributions or surplus withdrawals.

D. British Columbia Colleges Pension Plan ("CPP")

The CPP is governed by:

- (c) the CPP Joint Trust Agreement made April 4, 2011; and
- (d) the CPP rules, effective June 22, 2012 (current to April 1, 2016).

The CPP Joint Trust Agreement allocates powers and authorities with respect to ongoing surpluses in the same way as the other BC Plans.

The Partners have the authority (s.14 (2) of the Joint trust Agreement) to direct the Board to amend the Plan rules, and the Plan Board is required to amend those rules, provided that the Partners "first receive and consider the advice of the Board respecting both the cost and the administrative impact of implementing the proposed amendment" and the proposed amendment is not inconsistent with applicable law or the Trustees' fiduciary responsibilities. Significantly, the CPP constating documents contain no right of recourse to arbitration or other final and binding dispute resolution in the event that the CPP Partners cannot agree on surplus utilization. This contrasts with the OTPP Partners' Agreement, which does provide for third party determinations of differences arising between Partners with respect to surplus uses

Pursuant to subsection 14(4) of the CPP Joint Trust Agreement, the Board of Trustees is also permitted to amend the Plan rules and to utilize Plan surpluses so long as there is no resulting increased in contribution rates, there is no creation of, or increase in, an unfunded liability and the proposed amendment is consistent with the Trustees' fiduciary responsibilities. As with the other BC Plans, the Board of Trustees must use a twenty-five year period for the amortization of the Plan surplus.

Unlike the MPP, TPP and PSPP, the CPP Joint Trust Agreement has no transitional provisions that direct the Board of Trustees as to the application of ongoing surpluses during a transitional period.

III. SUMMARY AND CONCLUSIONS

A. Ontario Plans

OTPP - The governance arrangements with respect to the OTPP provide that the Partners that sponsor that arrangement, being the Minister of Education and the OTF, may utilize ongoing surpluses as they believe appropriate, subject only to the Ontario Pension Benefits Act, R.S.O.

1990, c.P.8 (the "Ontario PBA"). The Board of Directors of the OTPP, being the OTPP administrator for purposes of the PBA, has no authority with respect to the use of Plan surpluses. The OTPP Partners' Agreement anticipates that the Partners will, on a triennial basis, review the results of a preliminary actuarial valuation and determine whether and how they wish to adjust Plan benefits or contribution rates in view of any existing funding deficiencies or ongoing surpluses. The Partners are obliged to bargain in good faith with each other with respect to the disposition of ongoing surpluses, and may have recourse to mediation and final and binding arbitration should they not reach an agreement on their own. An arbitration panel may apply ongoing surpluses to improve benefits or reduce contributions, subject to the limitations set out in section 92 of the Partners Agreement.

B. BC Plans

Ongoing Surpluses - All of the BC Plans follow the same pattern with respect to the authority to use

ongoing surpluses. In the normal course, the Boards of Trustees of the BC Plans, unlike their Ontario counterparts, are permitted to utilize ongoing surpluses through the amendment of the Plan rules governing contributions and benefits, so long as the amendment of the Plan rules does not result in an increased contribution rate for employees or employers, does not create or increase an unfunded liability in the Plan and is otherwise compliant with applicable legislation and the Trustees' fiduciary obligations.

At the same time, each of the BC Plans also permits the Plan Partners to utilize ongoing surpluses by directing the Board of Trustees to amend the Plan rules. The Partners may so direct the Board of Trustees after receiving advice from the Board with respect to the costs of any Plan amendment and the administrative implications of such an amendment, and so long as the proposed amendment is compliant with law and with the Trustees' fiduciary obligations. However, unlike for the OTPP, the BC Plans' constating documents provide neither Partner with a right of recourse to a third party for a final and binding determination concerning surplus utilization.

Transitional Period- In addition, three of the four BC Plans we have reviewed (MPP, TPP and, for only two years, the PSPP) contain special rules governing the utilization of ongoing surpluses during a "Transitional Period". In these cases, the Transitional rules require that ongoing surpluses that emerge during the Transitional Period are to be used to restructure the employer contribution obligation and improve benefits. In the cases of the MPP and TPP, the Transitional Periods do not come to an end until all of the intended uses of ongoing surplus during the Transitional Period have been fulfilled. We are not currently aware as to whether the Transitional Periods for the MPP and the TPP remain ongoing, or have terminated. Until such time as the objectives identified for the Transitional Periods are fulfilled, there is no discretion left to either the Partners or the Board of Trustees to utilize ongoing MPP surpluses.

Appendix J – Summary of OTPP Funding Rate Assumptions and Provincial Discount Rates vs. Actual Performance

Ontario Teacher's Pension Plan Rate Comparison

	OTPP Annual Performance	OTPP Filed Discount Rate *	Province Economic Assumption for Nominal Return
2005	17.2%	6.48%	7.00%
2006	13.2%		7.00%
2007	4.5%		6.75%
2008	-18.0%	5.65%	6.75%
2009	13.0%	5.00%	6.75%
2010	14.3%		6.75%
2011	11.2%	5.40%	6.75%
2012	13.0%	5.30%	6.75%
2013	10.9%		6.75%
2014	11.8%	4.95%	6.75%
2015	13.0%	4.85%	6.50%
2016	n/a	n/a	6.25%

* The plan does not file a valuation annually. Under the Pension Benefits Act, plans must file at least every three years

Ontario Teacher's Pension Plan Plan Performance

2015	13.0%
2014	11.8%
4 - Year	12.2%
10- year	8.2%
Inception	10.3%

OTPP legal overview slides - PK Nov 16 2016.pptx

OTPP – Legal Overview



- TBS received legal opinion from Osler, Hoskin & Harcourt LLP on September 20, 2016 (“Osler Opinion”)
- Osler Opinion considered
 - Processes pursuant to which Province could utilize surplus assets in OTPP
 - Expectations of Province, as a Sponsor, regarding the basis for surplus utilization decisions

OTPP – Legal Overview



- Osler Opinion reviewed key governing documents for OTPP, and applicable legislation:
 - Plan text
 - Partners’ Agreement
 - Funding Management Policy (“FMP”)
 - 2013 Term Sheet
 - *Teachers’ Pension Act*
 - *Pension Benefits Act*

- *Teachers' Pension Act* reflects that members are meant to share both upside (surplus) and downside (deficit) under OTPP, provides framework for Partners' Agreement
- While the *Teachers' Pension Act* does not expressly require 50/50 sharing, it informs expectations of sponsors re: surplus utilization

- Plan Documentation (specifically FMP) provides for different surplus utilization depending on funding status:
 - Restoration Zone – restoration contribution reduction may be approved after other conditions met
 - Temporary Improvement Zone – surplus can be applied to temporary contribution holiday (either on stand-alone basis or in combination with benefit improvements or surplus withdrawals)
 - Permanent Improvement Zone – surplus can be applied to permanently reduce current contribution obligations of sponsors (either on stand-alone basis or in combination with change to benefits)
- Parties also have discretion under FMP to agree to utilize surplus in any other manner

OTPP – Osler Opinion - Summary



- Neither Sponsor has a legally enforceable right to unilaterally utilize surplus in OTPP
- Province and OTF have right to negotiate on use of surplus disclosed in actuarial valuation filed with regulator

- Plan documentation and applicable legislation provide for following considerations that could shape sponsors' expectation re: basis for surplus utilization:
 - *Teachers' Pension Act* prohibits provincial contributions exceeding active member contributions (with some exceptions). In practice this has resulted in 50/50 sharing of contribution costs since OTPP became jointly sponsored
 - Past practice of aggregate equal sharing of financial benefits of surplus utilization since OTPP became jointly sponsored (although each surplus not shared equally)
 - Neither party has unilateral right to require surplus to be utilized in a particular manner (subject to OTF call right) – requirement for negotiation/agreement/arbitration presents Sponsors with equal opportunity to benefit from surplus utilization
 - Partners' Agreement includes 'good faith' bargaining requirement
- Partners' Agreement provides for arbitration by panel if Partners cannot agree on surplus utilization, subject to certain limits

Ontario Teachers' Pension Plan (OTPP) v 04 11-17-2016.pptx

Ontario Teachers' Pension Plan

Overview and Current Status

Purpose

- To provide an overview of the Ontario Teachers' Pension Plan (OTPP) and highlight:
 - Roles and responsibilities of the Partners (the Government and the Ontario Teachers' Federation (OTF)) and the Ontario Teachers' Pension Plan Board;
 - Key characteristics of OTPP (benefits and contributions, membership demographics, and investments/assets);
 - The Valuation types;
 - The Funding Management Policy (FMP); and
 - The 2016 Valuation

History

- Teachers in Ontario have been members of a pension plan since 1917.
- Until 1991, the pension plan was entirely under the control of the Government of Ontario.
- In 1992, the plan became jointly sponsored through a partnership agreement between the Government of Ontario (represented by the Minister of Education and supported by the Minister of Finance) and the OTF.
- The OTPP is a jointly sponsored defined-benefit pension plan.
 - The **Government of Ontario** represents the employer for the purposes of the plan and makes contributions for all teachers and eligible staff in the publicly funded school boards.
 - Members make their share of contributions to the Plan and are represented by the **OTF**.
 - The risks and rewards are shared equally by the co-sponsors of the pension plan – the OTF (and plan members), and the Ontario Government.

Roles and Responsibilities

- As joint sponsors, the OTF and the Government make decisions on membership in the plan, contribution rates and level of benefit provided by the plan.
 - Effective January 2016, the Board expanded from nine to eleven members. The OTF and the Government each appoint five members and jointly appoint the Chair of the Board [Appendix A.1 and A.2].
 - A Partner's committee provides advice to the sponsors on various issues relating to the plan [Appendix B].
- As plan administrator, the OTPP is responsible for:
 - Administering the plan in accordance with the conditions set by the plan sponsors;
 - Managing investment strategy of the fund;
 - Complying with Legislation including the *Pension Benefits Act (PBA)*, *Income Tax Act (ITA)*; and
 - Hiring an independent actuary and filing a valuation with the pension regulator - the Financial Services Commission of Ontario (FSCO) - at least once every three years.

Roles and Responsibilities(cont'd)

- The Minister of Education represents the Government of Ontario and is responsible for the *Teachers' Pension Act (TPA)*.
 - Appoints members to the OTPP Board; and
 - Deals with amendments to the pension plan including:
 - Administrative/House-keeping changes: for example, changes to the plan as a result of changes to the *ITA* or *PBA*; and
 - Plan Policy Changes – such as contribution rates, benefit levels, and other plan provisions such as re-employment rules.
- The Minister of Finance is responsible for the *PBA* which governs all pension plans registered in Ontario – including the OTPP.
 - Co-ordinates and oversees all pension plans for pension policy implications – including broader public sector plans and the Canada Pension Plan.
 - Additionally, changes to the OTPP may have a direct impact on the Province's fiscal plan.

Benefits and Contributions

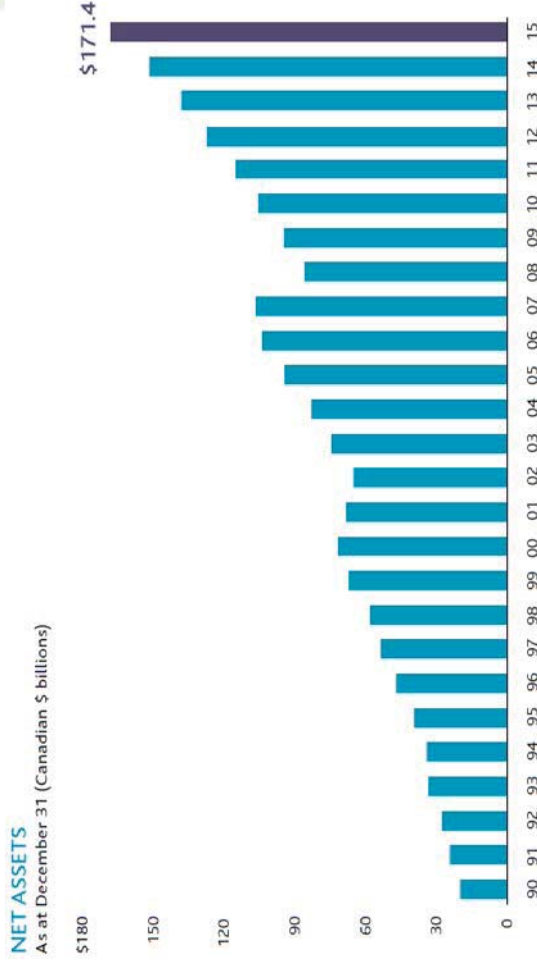
- OTPP is a Defined Benefit Plan.
 - Basic annual pension = $2\% \times \text{credit (years of service)} \times \text{best-five years' average salary}$.
 - Un-reduced pension at FACTOR 85 (age + qualifying years = 85).
 - Pensions are indexed for annual inflation (maximum of 8%).
 - Conditional Inflation Protection (CIP) was introduced as part of the 2008 valuation agreement and was further amended in 2012 to give the sponsors the ability to address future deficits by decreasing inflation on pension payments for future service [\[see Appendix C\]](#).
- OTPP Contribution Rates – total contribution rate (as a % of pensionable salary) is the sum of two contribution rates.
 1. Basic Contribution Rate as of January 1, 2016 is set at 10.4% for salary up to the Canada Pension Plan (CPP) limit; and
 2. 12.0% for salary above the CPP limit (\$54,900 in 2016).
- The government's cash contributions to OTPP total \$1,664 million in 2016-17 (up from \$1,496 million in 2015-16).
- OTPP contribution rates are among the highest when compared to other Ontario public sector pension plans.

Demographics of OTPP

- The OTPP is managed on behalf of 316,000 active and retired elementary and secondary school teachers and their survivors.
- The ratio of active to retired plan members has been steadily decreasing.
 - In 1970 the ratio of working-to-retired members was 10 to 1, by 1990 it had reached 4 to 1 and today it is just 1.4 to 1.
- The combined effect of current retirement rules and increasing longevity is resulting in retirement periods (benefit payments) that are longer than working (contributory) careers.
- The pension plan also cannot afford to take as much investment risk as before because there is a smaller portion of contributing members to make up any potential loss. Taking less risk is safer, but lowers the pension plan's earning potential.

Investments and Assets

- As of January 1, 2016, the pension plan's assets were valued at \$171.4B.¹
- The OTPP's assets have grown by over \$150B since 1990, when it started investing in financial markets.
- The OTPP's average annual investment return since its inception is 10.3%.



INVESTMENT PERFORMANCE

(percent)

	2015	2014	4-Year	10-Year	Since Inception
Total return	13.0	11.8	12.2	8.2	10.3
Benchmark	10.1	10.1	10.1	6.9	8.1
Return above benchmark (Canadian \$ billions) ²	\$4.2	\$2.4	\$11.0	\$16.3	\$35.6

¹ Based on the 2016 Funding Valuation.

² OTPP's benchmarks reflect the performance of the various markets in which they invest, such as the S&P/TSX 60 Index for Canadian stocks and the S&P 500 Index for U.S. stocks. OTPP compares its performance against these benchmarks to evaluate the effectiveness of its investment strategies and activities relative to the risks taken.

Valuation Types

The OTPP is required to perform three different valuations each year: a funding valuation and two accounting valuations. These valuations are different ways to estimate the cost to provide benefits to be paid in the future.

- A **funding valuation** determines the required cash contribution to ensure long term benefit security. Funding valuations are governed by PBA and actuarial standards. It usually contains an element of conservatism.
- An **accounting valuation** determines pension expense to be recorded in the financial statements. The purpose of the accounting valuation is to allow for the comparability of distinct entities. Unlike a funding valuation, there is no actuarial discretion in setting valuation methods or assumptions.
- There are two types of accounting valuations performed by the OTPP:
 - The province's **accounting valuation** determines the Province's pension expense and pension assets for the fiscal plan and the province's financial statements. It is performed in accordance with Public Sector Accounting Board (PSAB) recommendations.
 - The OTPP Board's accounting valuation, which is commonly referred to as the Board's **financial statement valuation** is an account valuation performed based on International Financial Reporting Standard (IFRS).

Funding Valuation

- Every pension plan in Ontario has to file a valuation with FSCO at least once every 3 years.
 - This valuation, based on a long-term projection of the pension plan's assets and liabilities, must show that promised pension benefits are funded adequately on a long-term basis.
 - If a filing shows a shortfall (deficit) under existing rules, it must include a plan to eliminate the shortfall, either through higher contributions or reduced future benefits.
 - Note: benefits already earned/accrued by retirees and active members are protected by legislation and cannot be reduced, except in the case of JSPPs, which may reduce accrued benefits on wind-up.
- The key element to a funding valuation is the determination of the actuarial value of assets and liabilities – influencing factors include :
 - For assets: market conditions; investment returns on pension plan's assets; and expectations about returns and inflation in the future.
 - For liabilities: the discount rate; benefit provisions; mortality assumptions; and retirement projections.
- The sponsors are responsible for determining how to eliminate any shortfalls (or use a surplus) based on the guidelines set out in the Funding Management Policy (FMP), and the OTPP is responsible for filing the valuation, following direction from the sponsors **[see Appendix D for valuation history]**.

Funding Management Policy

- The Funding Management Policy (FMP) is an agreement that forms part of the OTPP Partners' Agreement (**See Appendix E for FMP Framework Description**).
- The Plan sponsors adopted the FMP in 2003 to guide decisions on when to use surplus and how to address shortfalls. Procedures for changing contribution and/or benefit levels depend on which “zone” the funded status is in. For example:
 - Restoration/Underfunded Zone – Raise contributions rates and/or invoke Conditional Inflation Protection (CIP) as negotiated.
 - Fully Funded Zone – Do nothing: Maintain base benefits and contributions.
 - Temporary Improvement Zone – Temporarily Improve benefits or lower contributions as negotiated.
 - Permanent Plan Improvement Zone – Improve benefits or lower contributions as negotiated.

Funding Valuations:

Factors Impacting Funded Status

- In recent years the pension plan's financial position has been adversely impacted by general market and investment conditions.
 - Long-term bond yields, which largely determine the discount rate to value the pension plan, have been declining. As a result, the liabilities of the OTPP have increased.
- In addition to the general conditions, demographics and the Plan's maturity (improvements in life expectancy and earlier retirement) have increased the cost of pension guarantee.
 - Teachers, who are predominantly women (70%), are living longer.
 - Improvements in life expectancy, coupled with Factor 85 for retirement eligibility, also mean that on average, teachers are collecting pensions for a longer time horizon than their working life.
 - Declining ratio of active teachers to retirees means that risk of pension deficits in the pension plan are being borne by a smaller group of active teachers.

2016 Valuation

- According to the OTPP’s preliminary funding valuation (as at January 1, 2016) the Plan had a surplus of about \$13.2B with a discount rate of 2.75%.
- This is primarily due to steps the sponsors previously took to adjust plan provisions (i.e. introducing inflation protection conditional on the health of the Plan and special contributions). Without these measures, the Plan’s funded status would be in deficit.
- The sponsors agreed to file this valuation with FSCO and used part of the surplus to partially restore CIP on post-2009 service to 90% effective January 2017.
 - The CIP was at 70% as of January 2016 – up from 60% in 2015.
 - The last filed valuation was January 1, 2015.
- Filing this valuation will benefit both sponsors as a portion of the surplus will be used to partially restore inflation protection for teachers. The government will benefit through a reduction in “sharing equal pain” payments, additional contributions made to the plan, in conjunction with the OTF, since CIP was invoked (**See Appendix C**).

Appendix A.1:

OTPP Board of Directors

- The Partners' Agreement lays out the administration of the Board.
- The sponsors each appoint five members to the Board and they jointly appoint the Chair.
 - Government appointments to the Board are made by Ministerial letter rather than by Order in Council.
 - The current Chair is Jean Turmel. His term ends December 2016 but he is expected to be reappointed.
- Board members terms are two years and members are limited to serving four consecutive terms.
- A Board member can continue in office if, at the end of his or her term, no appointments are made to fill the vacancy.
- The Board sets the remuneration levels for the members.

Appendix A.2:

OTPP Board of Directors

The Ontario Teachers' Pension Plan Board of Directors



Jean Turnel
Chair
Joint Appointment
1st term ends
Dec. 31, 2016



Barbara Palk
EDU
3rd term ends
Dec. 31, 2017



Daniel Sullivan
EDU
3rd term ends
Dec. 31, 2017



David Smith
EDU
3rd term ends
Dec. 31, 2016



Steven McGirr
EDU
1st term ends
Dec. 31, 2016



Kathleen O'Neill
EDU
1st term ends
Dec. 31, 2017



John Murray
OTF
1st term ends
Dec. 31, 2016



William Chinery
OTF
1st term ends
Dec. 31, 2016



Rod Albert
OTF
4th term ends
Dec. 31, 2017



Patti Croft
OTF
1st term ends
Dec. 31, 2017



Lise Fournel
OTF
1st term ends
Dec. 31, 2017

Human Resource & Compensation Committee

Bill Chinery, Chair
Rod Albert
Steve McGirr
Barb Palk
Dan Sullivan

Audit & Actuarial Committee

David Smith, Chair
John Murray
Rod Albert
Bill Chinery
Patti Croft
Lise Fournel
Kathleen O'Neill

Governance Committee

Steve McGirr, Chair
John Murray
Bill Chinery
Patti Croft
David Smith

Investment Committee

Barb Palk, Chair
All Board members

Benefits Adjudication Committee

Rod Albert, Chair
Dan Sullivan, Vice-Chair
Remi Sabourin, AEFO
Suzann Jones, RTD
Richard Schrader, OECTA
Janet Bigham, ETFO
Sheila Vandenberk, OSSSTF
Gabriel Sekaly, Gov't of Ontario
Jennifer Brown, Gov't of Ontario
Graham Hills, Gov't of Ontario

Appendix B:

OTPP Partners' Committee

- The Partners' Committee is a staff advisory body with no power to change OTPP rules.
- Provides advice to the Government and the OTF Executive on:
 - Policy issues: e.g., funding, plan membership (designate eligible employers);
 - “Housekeeping” changes to improve plan administration.

Government Representatives	OTF Representatives
• Gabriel Sékaly, Assistant Deputy Minister Financial Policy & Business Division • Ross Peebles, Retired Deputy Minister (EDU consultant) • Joshua Paul, Executive Director, Fiscal & Financial Planning, • Alex Killoch, Director, BPS Pensions Branch (MOF)	• Michael Foulds, President • Anne Vinet-Roy, Past President • Chris Cowley, 1st Vice President

Appendix C:

Conditional Inflation Protection

- Conditional Inflation Protection (CIP) was first introduced in 2008 to give the sponsors the ability to address future deficits by decreasing inflation protection on pension payments for future service. It is conditional on the financial health of the plan and only comes into play when a teacher retires.

Annual Cost-of-Living Increases for Teachers who Retired After 2009		
Pension credit	Allowable levels	Levels in 2016
Earned before 2010	100%	100%
Earned during 2010-2013	50% to 100%	70%
Earned after 2013	0% to 100%	70%

- When CIP is invoked the government also makes additional contributions to the pension plan, equal to the amount of inflation protection between 50% to 100% of CPI forgone by the retired teachers. This is seen as the Government “sharing equal pain” .
 - As part of the 2008 agreement to introduce CIP, the government agreed to a “sharing equal pain” provision.
 - The provision states that, for years during which CIP is invoked, the government will make additional contributions to the OTPP equal to an amount up to 50% of the amount of retired members’ foregone inflation protection benefits.

Appendix D: Valuation History

Year	Valuation Status and Key Funding Decisions
1990	A preliminary unfunded liability of \$7.8 billion to be amortized over 40 years by special payments from the Ontario government; basic contribution rate increased to 8% from 7%.
1993	A preliminary \$1.5 billion surplus was distributed: \$1.2 billion used to reduce government's special payments; \$0.3 billion used to offset government cost reductions in the education sector (social contract days).
1996	A preliminary \$0.7 billion surplus was distributed: \$0.6 billion used to reduce early retirement penalty to 2.5% from 5% for each point short of 90 factor and lower the CPP reduction after age 65 (to 0.68% from 0.7%).
1998	A preliminary \$6.8 billion surplus was distributed: \$2.2 billion to pay for the 85 factor window from 1998 to 2002 and further lower the CPP reduction to 0.6%; \$4.6 billion to reduce the value of special payments owed by the Ontario government. OTF and the Ontario government agree future surplus would be used to eliminate the government's remaining special payments, and the next \$6.2 billion surplus would be available to OTF for benefit improvements.
1999	A preliminary \$3.5 billion surplus was distributed to eliminate government's remaining special payments.
2000	\$4.5 billion surplus; no changes to benefits or contribution levels.
2001	A preliminary \$6.8 billion surplus was distributed: \$6.2 billion to pay for benefit improvements, including a permanent 85 factor; 10-year pension guarantee; reduced pension as early as age 50; lower CPP reduction (to 0.45%); 5-year average Year's Maximum Pensionable Earnings (YMPE) to calculate CPP reduction; pension recalculation based on approximate best-5 salary years for older pensioners; and top-up waived for Long-Term Income Protection (LTIP) contributions. The remaining \$76 million was set aside in a contingency reserve to be used by OTF at a later date.
2002	\$1.9 billion surplus; no changes to benefits or contribution levels.
2003	\$1.5 billion surplus; no changes to benefits or contribution levels. Funding Management Policy adopted by plan sponsors.

Appendix D: Valuation History Cont'd

Year	Valuation Status and Key Funding Decisions
2005	A preliminary \$6.1 billion shortfall was resolved, leaving plan with a \$0.1 billion surplus. Shortfall resolved with special contribution rate increases, totalling 3.1% of base earnings by 2009 for teachers, the Ontario government and other employers. OTF used the \$76 million contingency reserve set aside in 2001 to reduce contribution rate increases for members in 2008.
2008	A preliminary \$12.7 billion shortfall was resolved with the introduction of conditional inflation protection for pension benefits earned after 2009 and an increase in the basic contribution rate for members and the government to 9% from 8%. Employers agree to make special payments equal to any annual pension increases retirees forgo to a maximum of 50% missed inflation.
2009	A preliminary \$2.5 billion shortfall was resolved primarily by assuming a slightly higher long-term rate of return on investments: yield on real-return bonds plus 1.5%, versus real-return bonds plus 1.4%. Other minor changes made to assumptions to reflect recent plan experience.
2011	A preliminary \$17.2 billion shortfall was resolved with a 1.1% contribution rate increase (phased in over three years), slightly smaller annual cost-of-living increases for teachers who retired after 2009, and recognition of current contribution rate as the permanent base rate.
2012	\$9.6 billion preliminary shortfall adjusted to reflect changes in mortality assumptions and impact of two-year freeze on teachers' salaries. 2012 shortfall resolved by making inflation protection for pension credit earned after 2013 fully conditional on plan's funded status and providing slightly smaller pension increases, beginning in 2014, for members who retired after 2009. These changes enabled the plan to assume a slightly higher discount rate. The changes left the plan with a \$200 million surplus at Jan. 1, 2012.
2014	\$5.1 billion preliminary funding surplus used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided each year since they retired. The surplus funds were also used to raise conditional inflation protection to 60% of the increase in the cost of living for the portion of retirees' pensions earned after 2009. Both changes are effective with January 2015 pension payments.
2015	More than half of the \$6.8 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection had been provided on January 1, 2015. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 70% from 60% of the increase in the cost of living. Both changes were effective January 2016. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.
2016	Some of the \$13.2 billion preliminary funding surplus was used to boost pensions of members who retired after 2009 to the level they would have been at if full inflation protection has been provided on January 1, 2016. The surplus funds were also used to raise conditional inflation protection for pension credit earned after 2009 to 90% from 70% of the increase in the cost of living. Both changes are effective January 2017. In addition, some surplus funds were reserved to help facilitate stability in contribution and benefit levels should a future funding valuation show a decline in assets or increase in pension costs.

Appendix E: FMP Framework

Description

Valuation Basis		Zone: Permanent Plan Improvements Mechanism: Improve benefits as negotiated
Assets = 110% of Liabilities valued at Ref Rate + 0.5%		
		Zone: Temporary Plan Improvements Mechanism: Improve benefits or lower contributions as negotiated
Assets = Liabilities valued at Ref Rates + 1.25%		
		Zone: Fully Funded (Do Nothing) Mechanism: Maintain Base Benefits and Contributions
Assets = Liabilities valued at Ref. Rate + 1.55%		
		Zone: Additional Support Required From Current FMP Levers Mechanism: Raise Contribution Rates and/or Invoke Conditional Inflation Protection as negotiated
		Zone: Additional Support Required From New/Additional Changes Mechanism: Negotiate other plan changes

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Public Service Shared Risk Pension Plan – Accounting for Net Pension Assets

Issue

To determine if the Province can record a pension asset for the Public Service Shared Risk Pension Plan.

Relevant PSAS

.050 *An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.*

- .056 A government determines its expected future benefit as the sum of:
- (a) the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
 - (b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

Assessment

Regulation 2012-75 under the *Pension Benefits Act* establishes maximum allowable contribution increases and decreases for shared risk plans. Further, the plan's funding policy has established maximum allowable decreases for this plan, in accordance with the Act, as follows:

Employees currently contribute approximately 8.25% of payroll, which may be reduced by a maximum of 0.50% of payroll in accordance with the plans' funding policy. The Province currently contributes 12.5% of payroll (including temporary contributions), which may be reduced by a maximum of 4.75% (1.25% from elimination of temporary contributions and 3.5% reduction in initial contribution rate). Current period benefit cost (including future indexing) as a percentage of payroll is 14.0% as per the latest actuarial valuation for accounting purposes. Therefore, the minimum employer contribution (7.75%) exceeds the portion of current period benefit cost that is not covered by employees (6.25%).

Illustrated in approximate dollar terms (millions):

Current period benefit cost:	\$158.2
Minimum permitted employee contribution:	<u>87.6</u>
Amount not covered by employees:	<u>\$ 70.6</u>
Minimum permitted employer contribution:	<u>\$ 87.6</u>

Article 3.4 (d) of The Agreement and Declaration of Trust of the PSSRP:

- (d) Subject to the *Pension Benefits Act* and the *Income Tax Act*, the following limitations shall apply to the rights to, interests in, or use of, the Fund:
- i. No Trustee shall, except when acting as a Trustee and in concert with other Trustees as permitted hereunder, receive or otherwise have control over any of the monies or property which at any time form part of the Fund, except for as described in Section 3.4(b).
 - ii. Neither the Province, Unions, Employer, Members, nor any other person, association or corporation shall have any right, title or interest in or to the Fund.
 - iii. Except as otherwise expressly provided herein, no part of the corpus or income of the Fund shall be used for or diverted to purposes other than the exclusive benefit of Members and their beneficiaries.

(note: the reference to section 3.4(b) in paragraph i. refers to administrative and investment management related expenses which are paid by the pension funds)

Conclusion

In accordance with the Plan's funding policy, the Province will always contribute an amount that when added to the minimum employee contribution will sufficiently cover the current period benefit cost. Also, provisions of the Plan's governing documents indicate that the Province can not withdraw excess funds from the Plan. As such, the Province must record a valuation allowance against a net pension asset since no future economic benefit, as contemplated under PS 3250.056, exists.

Valuation Allowances for DB Pension Plans v2.pptx

Valuation Allowances for DB Pension Plans

Analysis of the NB Public Service
Shared Risk Pension Plan

PS 3250

.050 *An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the **expected future benefit**....*

What is a future economic benefit?

In summary, identified under PS 3250.056 as:

- (a) ability to contribute less than employer portion of current period benefit cost, and or
- (b) ability to withdraw excess funds.

Contribution reductions

- (1) Current period benefit cost = 14% of payroll
- (2) Min. employee contribution = 7.75%*
- (3) Min. employer contribution = 7.75%*

$$(3) > [(1)-(2)]$$

Plan surplus can not be eliminated by contribution decreases alone, therefore, no future economic benefit.

* As specified by the Plan's funding policy (approved by the parties)

Contribution reductions

Illustrated in approximate dollar terms (millions):

Current period benefit cost:	\$158.2
Minimum permitted employee contribution:	<u>87.6</u>
Amount not covered by employees:	<u>\$ 70.6</u>
Minimum permitted employer contribution:	<u>\$ 87.6</u>

Withdrawal of surplus

- Not permitted as per governing documents
- Excerpt from the Agreement and Declaration of Trust :

'''
iii. Except as otherwise expressly provided herein, no part of the corpus or income of the Fund shall be used for or diverted to purposes other than the exclusive benefit of Members and their beneficiaries.

Conclusion

- No future economic benefit under PS 3250.056 (a) or (b)
- The Province recorded a valuation allowance
 - Actuarial Benefit Liability: \$ 248.3
 - Unamortized Losses: \$(451.0)
 - Net Pension Liability (Asset): \$(202.7)
 - Valuation Adjustment: \$ 202.7
 - Liability (Asset) recorded: \$ ---