

Accounting Changes to Ontario's Financial Statements

September XX, 2017

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

Accounting for net pension assets of jointly sponsored pension plans

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

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

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

After significant deliberation, including considering PAEAP's recommendations, Ontario confirmed that the accounting used for these pension plans prior to 2015-16 was appropriate, and in accordance with public sector accounting standards for pension asset accounting. Further, EY provided additional analysis and concluded that no valuation allowance was required for either plan as of March 31, 2017. The 2016-17 financial statements include these net pension assets and the 2015-16 financial statements have been restated to include them.

Accounting for the Independent Electricity System Operator

The [Independent Electricity System Operator \(IESO\)](#), like Hydro One and Ontario Power Generation (OPG), is regulated by the Ontario Energy Board. For the 2016-17 reporting year, the IESO began recognizing its market accounts' assets (amounts due from power distributors) and liabilities (amounts due to power producers) in their financial results. IESO has chosen to recognize these markets accounts on its books for transparency reasons, as it better reflects the financial position of the IESO-administered markets at year-end.

PSAB standards are silent on the use of market accounts. In such cases, the standards encourage preparers and auditors to consider guidance in other accounting frameworks when accounting for transactions not specifically addressed by the specific standards.

This accounting change was accepted by the IESO's independent external auditor, which issued an unqualified, or "clean," audit opinion. Further, before the Ontario Power Authority (OPA) merged with

IESO in 2015, the OPA used the same accounting presentation in its financial statements, which was not subject to qualification from the Office of the Auditor General at that time.

IESO has also adopted rate-regulated accounting for its year ending December 31, 2016. This decision was made because using rate-regulated accounting better reflects the economic substance of certain types of expenses that may not be directly recovered through the normal revenue requirement model.

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

Accounting for hospitals, school boards and colleges

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

Accounting for energy sector government business enterprises

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