



2015-16 Annual Report

Consolidated Financial Statements

Technical Briefing

October 3, 2016

What is the Annual Report?

- The Annual Report provides an update on the Province's financial activities against the approved Budget plan for 2015-16.
- The Report is unaudited because the Auditor General has said that she cannot provide her audit opinion on these financial statements, that were submitted to her on September 29.
- An audit opinion is a requirement to table the Public Accounts with the Lieutenant-Governor-in-Council.
- In the absence of the Auditor General's audit report, the unaudited Report is being released to support transparency and accountability.

Actions to Enhance Transparency and Accountability

- This year, the Province is using additional tools and features to enhance its financial reporting:
 - Expanded comparison of the current year's results to prior year(s) including expanded trend analysis over a five-year period.
 - Enhanced descriptions of the Province's capital assets.
 - A description of key risks that could impact the Province's financial results.
 - Discussion of key financial indicators.
 - Additional data visualization tools and data tables.
 - Increased number of open data sets for download.

Summary 2015-16 Results

2015-16 Actual Results*					
\$ Billions	2015-16 Budget	2015-16 Actual	2014-15 Actual	Change from Budget	% Change
Revenues	124.4	128.4	118.5	4.0	3.2%
Expenses	131.9	133.4	128.8	1.5	1.1%
Reserve	1.0	-	-	(1.0)	
Annual Deficit	<u>(8.5)</u>	<u>(5.0)</u>	<u>(10.3)</u>	<u>3.5</u>	-41.2%
Net Debt		(305.2)	(284.6)		
Accumulated Deficit		(202.7)	(187.5)		

*unaudited

Preparation of the Financial Statements

- The consolidated financial statements are prepared by the Government of Ontario in accordance with legislation and the accounting principles for governments recommended by the Public Sector Accounting Board (PSAB).
- PSAB independently establishes accounting standards for the public sector in Canada.
- PSAB standards specify how transactions and other events are to be recognized, measured, presented and disclosed in a public sector entity's financial statements.
- The objective of PSAB standards is to meet the needs of users of financial statements by providing the information needed for accountability and decision making.

Jointly-Sponsored Pension Plans (JSPPs)

- Ontario Public Service Employee's Union Pension Plan (OPSEUPP) and Ontario Teachers' Pension Plan (OTPP) are jointly sponsored pension plans where the Government of Ontario is a co-sponsor.
- The plans are funded on a 50/50 basis, co-managed by the sponsors, and decisions regarding benefits and contributions require negotiation and agreement between them.
- Well into the 2015-16 audit, the Auditor General raised some concerns with regards to Ontario's accounting practices, based on ways the province can recognize a future benefit for assets such as pension assets for the OPSEUPP and OTPP plans.
- Pension accounting is complex and requires the application of professional judgment. Despite best efforts to try to resolve concerns, professional staff and the Auditor General continue to have differences of opinion on how the pension assets for these plans should be accounted for under PSAB.

Accounting in Ontario for JSPPs

- Since 2001-02, the Province's share of pension assets reflected on the audited consolidated financial statements of the Province has been based on a policy considered to be appropriate and consistent with PSAB standards related to accounting for retirement benefits, which have not changed since they were last revised in 2001.
- Under PSAB, an asset arises when the government's total contributions to a plan, including interest earned thereon, are greater than the pension expense recognized since the start of the plan.
- The OPSEUPP and OTPP have both been reported in an asset position on the Province's consolidated financial statements for the past 14 years.
- The Province has received clean audit opinions for each of the past 22 years by four different Auditors General.
- Pension assets of OTPP and OPSEUPP were \$10.7 billion as of March 31, 2016.

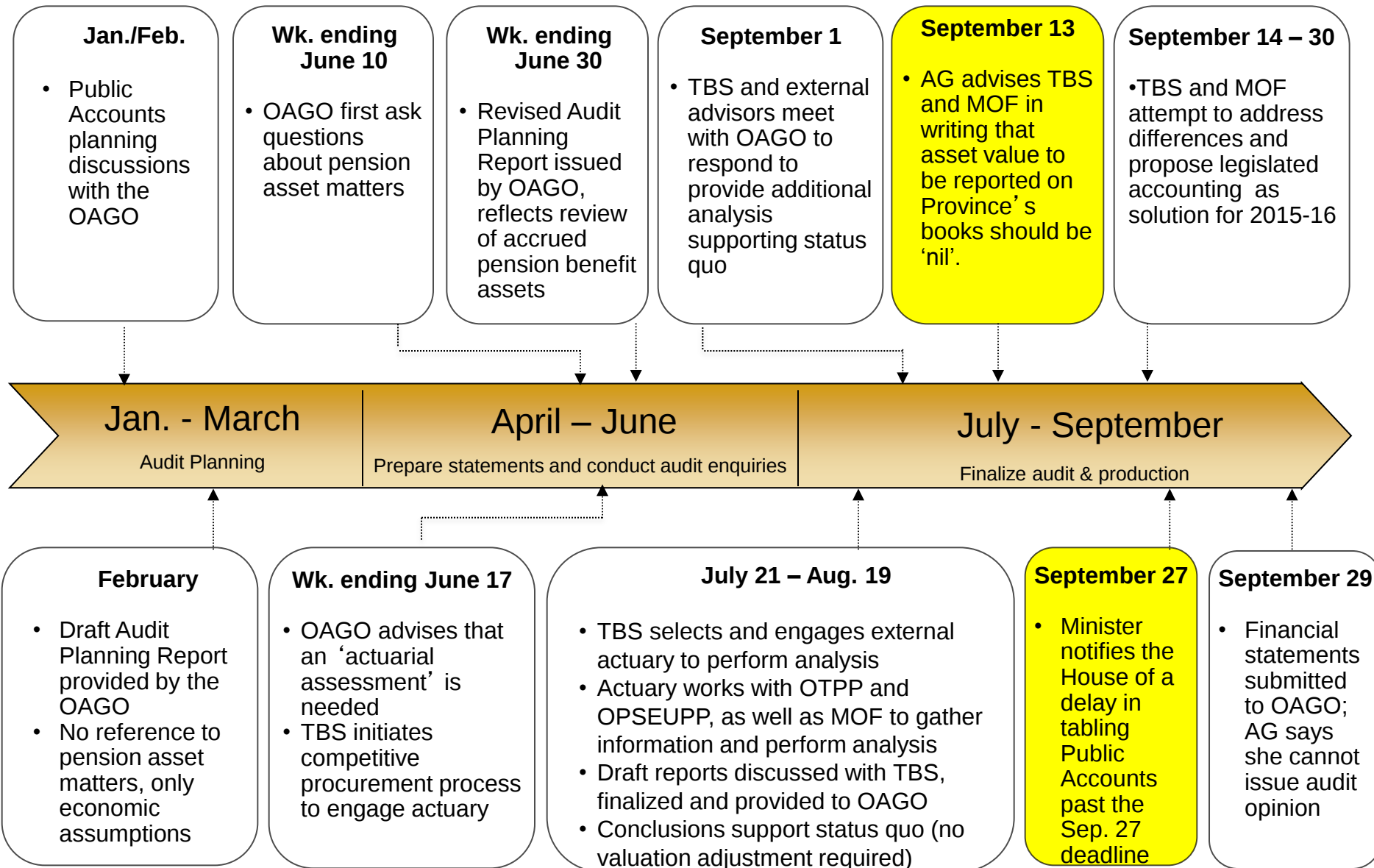
Auditor General's Position

- Well into the 2015-16 audit, the Auditor General (AG) expressed a different interpretation of the existing PSAB standards which would materially impact the Province's reporting of pension assets of jointly sponsored pension plans.
- The AG communicated a view in writing on September 13 that:
 - The government does not have a legally enforceable right to unilaterally access the assets of these jointly sponsored pension plans. As such, with no agreement in place to the contrary, the AG believes that the pension asset should be removed from the Province's balance sheet.
 - Agreements to reduce future contributions would need to be in place with plan sponsors by each year end, before an asset could be reported in the Public Accounts.
 - The Province would need to take a full valuation allowance of the \$10.7 billion pension assets currently reported for OTPP and OPSEUPP, which would eliminate these assets from the Province's consolidated financial statements.

Province's Position

- Based on professional staff's interpretation of PSAB, the government believes that pension assets for OPSEUPP and OTPP exist and should be reported in order to fairly present the Province's financial position.
- Despite measurement uncertainty, the assets resulting from the application of PSAB standards to OTPP and OPSEUPP do have value, which reflects management's future expectations as required by PSAB.
- The Province has reported pension assets for OPSEUPP and OTPP on its books consistently since 2001, based on expected future benefits including reduced future contributions.
- The applicable standard (PS 3250) does acknowledge that an asset can exist and provides guidance on assessing whether a pension asset is impaired.
- Professional staff do not agree that irrevocable agreements to reduce future contributions need to be in place in order for an asset to be reflected on the Province's books under PSAB.

Timeline



Legislated Accounting for Jointly-Sponsored Pension Plans

- Given the differences in interpretation of the application of PSAB standards for OTPP and OPSEUPP pension assets, Cabinet has approved a time-limited regulation which legislates the accounting for pension assets of jointly sponsored pension plans for 2015-16.
- The effect of the regulation is to reflect the fiscal impact of the AG's position pending further review and analysis on this complex accounting matter.
- The regulation requires a full valuation allowance be recorded against the pension assets for 2015-16, therefore writing off the value of the assets.
- The \$9.2 billion amount of the asset that was built up over time has been added to opening net debt and accumulated deficit for 2015-16.
- The increase in the asset during the year (\$1.5 billion) has been written off to increase pension expense in 2015-16.
- The change in accounting treatment is not any reflection on the funding status of the plans, or the quality of financial reporting by the Province.

Fiscal Impact of Accounting Treatment Change

- The regulated accounting change results in the exact same fiscal impact as the AG's interpretation of the PSAB standards.
- Impact of regulated accounting 2015-16 consolidated financial statements:
 - Increase in opening net debt and accumulated deficit by \$9.2 billion (value of OTPP and OPSEUPP pension assets in 2014-15 audited statements)
 - Increase in annual pension expense by \$1.5 billion, which increases the annual deficit by the same amount
 - Increase in ending net debt, accumulated deficit and pension liabilities by \$10.7 billion (as at March 31, 2016)
- The change in the Province's accounting treatment for pension assets of jointly sponsored pension plans, while increasing net debt, has no impact on the Province's borrowing requirements.
- Total debt remains unchanged by the pension adjustment.

Impact of Regulated Accounting on 2015-16 Annual Report

(\$ Millions)	Balance before Legislated Adjustment	Adjustment in accordance with Legislation	2015-16 Annual Report
Consolidated Statement of Operations			
Total Expenses	131,892	1,514	133,406
Annual Deficit	(3,515)	(1,514)	(5,029)
Consolidated Statement of Financial Position			
Pensions and Other Employee Future Benefits	1,439	10,668	12,107
Total Debt	327,413	-	327,413
Net Debt	(294,565)	(10,668)	(305,233)
Accumulated Deficit	(192,029)	(10,668)	(202,697)

In-Depth Review of the Application of Accounting Standards

- The regulation for the legislated accounting treatment of jointly sponsored pension plans was made for 2015-16 only.
- The Province will initiate a review of the application of PSAB's pension accounting standards to Ontario's jointly sponsored pension plans and will conduct a valuation review of the pension assets.
- The review will seek the expert advice of individuals with a range of backgrounds and experience, including pension administrators, preparers and auditors of public sector financial reports.
- To support an informed discussion, participants would have an in-depth knowledge of public sector accounting standards as related to pension accounting and/or the specifics of the OTPP and OPSEUPP joint sponsor arrangements, as well as similar pension plans in other jurisdictions.

Audited vs. Unaudited Financial Statements

- In practice, there should be no difference between audited and unaudited results.
- However, an audit of an entity's financial results provides assurance by an independent party that the results of the entity present fairly, in all material respects, the financial position of the entity and the results of its operations in accordance with generally accepted accounting principles.
- The Province's unaudited financial statements include a Statement of Responsibility which describes the basis upon which the financial statements are prepared, and attests to the government's responsibility for the objectivity and integrity of the consolidated financial statements.
- The government also attests to its responsibility for maintaining systems of internal control which support the integrity and completeness of the financial information reported.

Questions