2016-17 Public Accounts
Technical Briefing
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Slide 7 – Preparation of the Financial Statements

- Thank you Scott and Helen.

- For context, the Province adheres to Canadian Public Sector Accounting Standards issued by the Public Sector Accounting Board, or PSAB.

- By adhering to a common set of accounting standards with other senior Canadian governments, it allows users of our financial statements to draw comparisons to the financial performance of Ontario with other jurisdictions.

- It's important to note that while PSAS is the primary source of guidance for the government in the preparation of its financial statements, there are circumstances where governments may refer to other accounting frameworks for guidance where PSAS does not address specific transactions.

- In these cases, PSAS does encourage preparers to examine the application of other accounting frameworks for guidance.

Slide 8 – Accounting Changes for 2016-17

- For the 2016-17 fiscal year, the Province has made four changes in its accounting policies which have an impact on its presentation, financial results, or both.

- We will go through each of these items in further detail.

Slide 9 – Classification of Third-Party Revenues for Hospitals, Colleges and School Boards

- First, the 2016-17 Public Accounts present third-party revenues for hospitals, school boards and colleges, with provincial revenue.

- Since 2005-06 when these sectors were first consolidated, these revenues have been netted against expense.

- The change means that both revenues and expenses are increased by approximately $8 billion -- if you look at spending for health, education and post-secondary, you will see an increase in all of those expense lines if you are comparing the public accounts released last year to the public accounts released this year. In this years' document we have reclassified revenues and expenses in each of the 2016 budget and the prior years to ensure we are comparing results to the budget and the prior year on an apples to apples basis.

- This change in presentation has no impact on the annual deficit, net debt or accumulated deficit

- This change is consistent with the current PSAB standards and the presentation of other senior Canadian governments and was recommended by the Office of the Auditor General in prior years.

Slide 10 – Accounting basis for Ontario Power Generation and Hydro One

- The second change we will discuss is in regards to the accounting basis for Ontario Power Generation and Hydro One.
- In the current year, the results of Ontario Power Generation and Hydro One are included in the Province's financial statements using International Financial Reporting Standards, or IFRS.
- While these organizations appropriately use US accounting standards for preparing their own stand-alone financial statements, the Province is required under PSAS to include their results using IFRS.
- Historically, the results for these organizations were included in the financial statements of the Province using US accounting standards -- and the difference in those years and in the current year were not material to the annual deficit.
- However, IFRS and US GAAP are different in some areas, so the results of those organizations under US GAAP and the results included in the provinces financial statements could differ.
- This change was recommended by the Office of the Auditor General in prior years.

Slide 11 – Accounting for Independent Electricity System Operator (IESO) Market Accounts

- The third change we will be discussing here today is regarding the accounting for the Independent Electricity System Operator or the IESO and its Market Accounts.

- The IESO is a corporation established under the Electricity Act and prepares its financial statements in accordance with Public Sector Accounting Standards or PSAB standards. It prepares stand alone financial statements and its results are also consolidated into the Province's financial statements.

- The financial statements of the IESO are audited by KPMG and KPMG issued an unqualified or clean opinion on its most recent annual financial statements (which were for the year-ended December 31, 2016).

- Part of IESO's role is to administer the electricity market in Ontario. The $17 billion annual market reflects the amounts that are paid to the entities providing electricity to the market from those who consume electricity -- for example the local distribution companies like Hydro One or Toronto Hydro.

- The IESO is a party to an agreement with each market participant.

- In 2016, the IESO changed the accounting for the market accounts and now recognized these amounts due from market participants as assets and the amounts due to market participants as liabilities. This was done with the objective of creating greater transparency for the economic activities of the IESO.

- The change made by the IESO simply increases the total financial assets and liabilities – it has no impact on the annual deficit, net debt or accumulated deficit of the Province.

- The last bullet notes that the Ontario Power Authority – which was merged with the IESO on January 1, 2015, previously included similar accounts in its financial statements, and received an unqualified or clean opinion from its external auditor, KPMG. I would also note that the financial statements of the Province were not qualified by the Office of the Auditor General as a result of including these accounts in the Province's financial statements.

Slide 12 – Accounting for IESO Market Accounts

- As noted, IESO is a party to every agreement with a market participant, and every market participant either owes an amount to the IESO or is owed an amount from the IESO.

- For example, Ontario Power Generator – who generates power that is sold to the market, has a receivable from IESO recorded on its financial statements related to the power sold – historically IESO did not have a payable recorded to Ontario Power Generation – now it does. The same point could be made for other independent power generators such as Bruce Power or Brookfield Renewable Power.

- On the other side, Hydro One -- who purchases power from the market for its consumers, has a payable to IESO on its financial statements related to power purchased – historically IESO did not have a receivable recorded from Hydro One – now it does. The same point could be made for other independent local distribution companies such as Toronto Hydro or Ottawa Hydro.

- These amounts due to and due from meet the definition of assets and liabilities under Public Sector Accounting Standards, and the accounting is consistent with the survey completed of 8 other independent system operators in North America. All but one recognize market accounts in their financial statements.

- IESO's management, their Audit Committee, their Board of Directors, their external auditor and the Office of the Provincial Controller support the change in accounting as being more transparent.

- The Office of the Auditor General issued a qualified opinion on the 2016-17 financial statements regarding this change in accounting.

Slide 13 – Accounting for Net Pension Assets of Jointly Sponsored Pension Plans

- The fourth and final change I will discuss is the accounting for net pension assets of jointly sponsored pension plans.

- Some of you may recall this matter from last year's Public Accounts release.

- Just to recap, the Province co-sponsors two pension plans: the Ontario Teachers' Pension Plan and the OPSEU Pension Plan. Since 2001-02, the Province has reported its share of any pension assets related to these two plans on its books, in accordance with public sector accounting standards.

- These plans are funded on a shared basis, are co-managed by the sponsors -- decisions regarding retirement benefits and contributions require negotiation and agreement by both of the sponsors

- For example, in June of this year, the co-sponsors of the Ontario Teachers Pension Plan -- the Ontario Teachers Federation and the Ministry of Education announced a 1.1% reduction to contributions effective January 1, 2018

- A pension plan is in a net asset position with the contributions made to the plan since its inception, including the interest and returns earned on those contributions, exceeds, the pension expense recognized since the inception of the plan.

- As you may recall, at the time of the last public accounts, the Province passed a time-limited regulation and issued the Public Accounts with a full write-off of the net assets of both of these plans from its 2015-16 financial statements.

- Then, the Province established the independent Pension Asset Expert Advisory Panel to advise the government on how PSAS should be applied with respect to these pension assets.

Slide 14 – Pension Accounting

- The Province believed, and continues to believe, that it is appropriate to report its proportionate share of the net assets of these plans on its financial statements.

- The basis for this belief is that, as a co-sponsor, the Province has the ability to derive future benefits from these assets through reduced future contributions based on the existing agreements that are in place between the co-sponsors that provide the framework for the sponsors or partners to negotiate the future retirement benefits to the employees and the contributions that both the existing employees and the province will make to the plan to pay for those benefits.

- The expectation that in the future, contributions will be reduced fully supports the value of the asset. The professional staff do not believe that the Government has the right to withdraw any of the assets from the plan

- As a result of the analysis completed – which I will cover in more details on the next slide, the Province has recorded the pension assets for the two co-sponsored plans in the 2016-17 financial statements and has restated 2015-16 financial statements to follow the same accounting. All years presented since the adoption of the pension standards issued in 2001 are presented on the same basis.

- The last bullet on this slides speaks to the analysis the Province completed on two other pension plans -- Healthcare of Ontario Pension Plan, HOOPP, and the Colleges of Applied Arts and Technology Pension Plan, CAATPP. Up until this year, neither of these plans were in a net asset position, so there was no need to evaluate the application of the valuation allowance guidance on them.

- We determined that because of the difference in the governance structure from OTPP and OPSEUPP, it is not appropriate to recognize net assets for either of these plans. Therefore a valuation allowance for the proportionate share of the net assets for accounting purposes of the colleges plan has been reported in the 2016-17 financial statements. The amount of the valuation allowance for the colleges plan or CAAT is a small amount in the current year -- $14 million – and is disclosed in the financial statements.

- At the reporting date, HOOPP is not in a net asset position for accounting purposes, so no valuation was required in the current year.

Slide 15 – Pension Accounting

- Again, the basis for the Province's interpretation that it is appropriate to recognize the pension asset is based primarily on, as co-sponsor, the Province's ability to derive future benefits from these assets through reduced future contributions

- This position – which we refer to as being able to recognize the assets -- is supported by our own analysis as well as the work of the Independent Pension Asset Expert Advisory Panel, which Uros, a former member of the Panel will speak to in more detail, and an accounting opinion issued by Deloitte in October of last year. A summary of Deloitte's opinion is included in the appendix to this deck.

- How much of the assets that can be recognized – or what we refer to as measurement -- is based on applying the guidance in the standard on whether a valuation allowance is needed. The Province's interpretation is that no valuation allowance is required for either of these plans. That position is supported by the work of the Pension Panel – whose work was completed in March of this year, prior to the completion of the 2016-17 Public Accounts as well as analysis completed by EY, who the Province engaged to assess whether any valuation allowance was required for either of these plans as of March 31, 2017. EY confirmed our view that no valuation allowance was required.

- The Office of the Auditor General has qualified its opinion on the Province's financial statements with respect to this issue.

- As this point, I will turn it over to Uros to provide a summary of the work of the Pension Asset Expert Advisory Panel