

Chapter 3

Accounting for Pensions, Nursing Homes & Contingency Reserve

Contents

Introduction	45
Accounting for Pensions	45
Nursing Homes	59
Contingency Reserve	64
Appendix I – Pension Plan Information	67

Accounting for Pensions, Nursing Homes & Contingency Reserve

Introduction

3.1 In this chapter, our Office (AGNB) presents our observations on the Province's accounting for pensions, nursing homes and the contingency reserve. We believe a separate chapter is needed for these topics because the accounting for pensions, nursing homes and the contingency reserve involves complex accounting issues. Also, in 2016, the accounting for pensions and nursing homes caused significant adjustments to the Province's prior year audited consolidated financial statements.

Accounting for Pensions

3.2 Accounting for pension plans is a complex area requiring significant use of professional judgment. The following paragraphs outline changes which occurred since the 2015 year end audit and are not meant to provide detailed information on pension plan classifications for accounting purposes. Such information can be found in our 2015 Report, Volume III, Chapter 3.

Background

3.3 The Province's March 31, 2015 audited consolidated financial statements contained a qualified audit opinion. This qualified opinion was a result of the Province applying defined contribution accounting for its target benefit pension plans instead of defined benefit or joint-defined benefit accounting. Our view was that defined contribution accounting for these plans represented a departure from Canadian Public Sector Accounting Standards. This departure meant the Province could not receive a clean audit opinion in 2015.

Province changed its accounting policy in 2016

3.4 In 2016 the Province changed its accounting policy for these target benefit pension plans to be in accordance with Canadian Public Sector Accounting Standards. A list of the target benefit pension plans where the Province's accounting changed in 2016 is found in Exhibit 3.1.

Exhibit 3.1 – Pension Plan Accounting Summary 2015-2016

Target benefit pension plan	Province's 2015 accounting treatment	AGNB 2015 & 2016 recommended accounting treatment	Province's 2016 accounting treatment
Public Service Shared Risk Plan (PSSRP)	Defined contribution	Defined Benefit	Defined Benefit
New Brunswick Teachers' Pension Plan (NBTPP)	Defined contribution	Joint Defined Benefit	Joint Defined Benefit
Shared Risk Plan for Canadian Union of Public Employees of NB Hospitals (H-CUPE)	Defined contribution	Joint Defined Benefit	Joint Defined Benefit
Shared Risk Plan for Certain Bargaining Employees of NB Hospitals (H-CBE)	Defined contribution	Joint Defined Benefit	Joint Defined Benefit

Pleased with the 2016 changes

3.5 We were pleased to see the necessary pension accounting changes occurred in 2016 to allow our Office to issue a clean audit opinion on the Province's consolidated financial statements.

Financial impact of the changes

3.6 The primary impact of this pension accounting policy change was a \$224 million increase in liabilities, net debt and opening deficit.

What changed?

3.7 This year, the OOC obtained new information that was not available in the prior year. Specifically, actuarial valuations for accounting purposes using defined or joint defined benefit pension accounting models were obtained for the four target benefit pension plans in Exhibit 3.1.

- New information available*** **3.8** This new information permitted pension accounting calculations to be performed for the Province’s financial statements that could not be done in the prior year without this data.
- New accounting questions addressed*** **3.9** As a result of obtaining this new information, additional accounting questions for the Province’s target benefit pension plans were able to be considered.
- 3.10** Key questions that were raised and evaluated included:
- the appropriate percentage to include for joint defined plans;
 - the appropriate treatment of the Province’s guarantee for the PSSRP;
 - the appropriate amount of indexation to include for target benefit plans; and
 - the appropriate amount of asset to record, if any, for the Province’s target benefit pension plans.
- Province’s share of joint defined benefit plans*** **3.11** In determining what percentage of the joint defined benefit plan to record in the Province’s financial statements, the chief consideration was the intended long-term, and eventual equal sharing of pension contributions between the employer and employee. Therefore, on an overall basis, 50% was supported as the most appropriate portion to include in the Province’s financial statements for its joint defined benefit plans.
- 3.12** While current contribution funding does not match a strict 50% employee/employer split, we felt it appropriate to focus on the long term intended plan design of equal contribution sharing. A longer term view helps reduce unnecessary accounting volatility from year to year as contributions levels may fluctuate in the short-term.
- Province’s PSSRP guarantee*** **3.13** While there has been no change in the Province’s PSSRP guarantee, the appropriate accounting treatment for this guarantee needs to be re-evaluated annually. For this year, we again concluded the Province’s treatment of the guarantee through classifying the PSSRP as a defined benefit plan was acceptable, similar to 2014.

3.14 However, as noted in our 2014 Report, Chapter 3, in years immediately following the pension plan conversion, the pension obligation has a high percentage of the pension obligation that is covered by the Province's guarantee. As the guarantee applies to pension benefits earned by all employees and retirees prior to the conversion in 2014, it will lessen with time. For this reason, eventually the classification of this plan may need to be revised to a joint defined benefit plan.

Future indexation of pension benefits

3.15 In determining an estimate of the pension obligation, an important assumption needed was how to account for possible future indexation of pension benefits. Key factors considered include the plan design, actuarial assessments and estimates, and communications to plan members.

3.16 Actuarial work was a very compelling component of the evidence available regarding future pension benefit indexing. Overall, the actuaries calculated the indexing component by estimating the average indexing expected to be provided over the next twenty years. This indexing estimate was included in calculating the pension plan liability.

Amount of pension asset to record for the Province's target benefit plans

3.17 Two of the target benefit plans (PSSRP & NBTPP) were in a net asset position when the accounting calculations were performed as of March 31, 2016. For accounting purposes, a net asset position includes not only pension investment assets in excess of pension liabilities; it also includes deferred losses. (Deferred losses arise when actuarial and experience estimates differ compared to actual results and are deferred and amortized over time).

3.18 Given that the Province has no claim or legal right to target benefit pension plan assets or surpluses, a valuation allowance was applied to remove the value of any remaining pension asset for the target benefit pension plans. This accounting treatment is supported by similar treatment in another jurisdiction, as well as by the Public Sector Accounting Standards.

3.19 The use of a valuation allowance for target benefit pension plans' accounting assets permits a middle ground of accounting to be established. A pension liability can be recorded in years when a net liability exists for accounting purposes, however it also prevents a pension asset from being recorded when it is inappropriate to do so in the Province's target benefit pension plan structure. This approach provides the balance necessary in the Province's target benefit pension plans to consider traditional accounting rules within the new target benefit plan design and structure.

New (ad hoc) audit committee

3.20 We saw this year a new process emerge to address audit issues within the provincial government. An ad-hoc committee was convened in late September 2016 of senior government officials and certain members of Executive Council to discuss significant audit issues at the end of the audit. This process ensured our Office had the opportunity to inform the Committee of significant audit issues where decisions were required, as well as discuss the seriousness and consequences of the pension accounting classification issue.

3.21 Further, in a September 23, 2016 "*Government establishes audit committee*" news release, the government announced the creation of a new audit committee. We understand the current intent is that, as a result of a 2012, 2013, 2014, and 2015 repeated recommendation from our Office, this committee will meet regularly in the future to discuss significant audit issues with key government officials and certain members of Executive Council. We hope the committee, once formalized with a terms of reference or charter, will meet regularly.

Follow up on prior years pension recommendations

3.22 In our 2015 Report, Volume III, Chapter 3 we made seven recommendations regarding pension plans and pension accounting. In 2016, we were pleased to see significant progress in implementing our recommendations.

3.23 Exhibit 3.2 presents the prior year recommendations and their current status. This year, similar to years prior to 2015, we have included any new recommendations concerning pension plans in Chapter 4 where we discuss our significant findings arising from the audit of the Province's financial statements.

Exhibit 3.2 – Summary of Prior Year Pension Plan Recommendations and Current Status

2015 Recommendation	Status in 2016
Unsupported change in pension accounting policy	Implemented
Late accounting decisions	Not implemented
Accounting/documentation concerns with estimates	Not implemented – discussed in Chapter 4
Insufficient audit evidence for the NBTPP assets at conversion date	Resolved
Pension plan financial statements for NBTPP & PSSRP pension plans	PSSRP - implemented
	NBTPP- not implemented
Retirement compensation arrangement concerns	Partially implemented
Lack of rigor in review of pension calculations	Implemented

Progress on 5 of 7 recommendations

3.24 We were pleased to see five of seven recommendations were fully or partially implemented or resolved, however, we would prefer to see all recommendations fully implemented.

Pension plan information

3.25 Exhibit 3.3 provides a summary of pension plan assets, liabilities and expenses for the significant provincial pension plans.

3.26 This information was not included in the Province's financial statements. It had been previously included in the notes to the Province's financial statements in 2014 and prior years. We believe the information in Exhibit 3.3 should be included each and every year to provide more detailed and transparent information to readers of the Province's financial statements. For this year, we have decided to publish the information in our Report to ensure the information is publicly available. Refer to Appendix I for definitions of abbreviations used in Exhibit 3.3.

Exhibit 3.3 - Summary of Significant Pension Plans

Summary of Pension Plan Assets, Liabilities and Expenses (2016)														
in \$ millions														
	PSSRP	NBTPP	H CUPE	H CBE	NH- N&P	NH- G&S	NH- Mgmt	Judges	Members	Sch- Mgmt	Sch- GLTS	Sch- 2745	SERP	Total
Province's Share (per public accounts)	100%	50%	50%	50%	100%	50%	100%	100%	100%	100%	100%	100%	100%	
Plan Assets	6,940.5	2,649.8	359.1	894.4	123.8	211.3	82.7	43.3	-	6.6	341.2	80.0	11.4	11,744.1
Accrued Benefit Obligation	7,188.8	2,510.1	529.6	989.5	126.1	250.2	80.9	84.1	64.1	18.3	397.0	95.9	303.8	12,638.4
Unamortized Adjustments	(451.0)	(84.3)	(23.5)	(19.6)	(6.5)	(14.5)	(4.2)	(5.7)	0.5	-	(31.5)	(10.0)	(30.7)	(681.0)
Valuation Adjustment	202.7	224.0	-	-	-	-	1.8	-	-	-	-	-	-	428.5
Net Benefit Liability	-	-	147.0	75.5	(4.2)	24.4	(4.2)	35.1	64.6	11.7	24.3	5.9	261.7	641.8

Summary of Pension Plan Expenses (2016)														
in \$ millions														
	PSSRP	NBTPP	H CUPE	H CBE	NH- N&P	NH- G&S	NH- MGMT	Judges	Members	Sch- Mgmt	Sch- GLTS	Sch- 2745	SERP	Total
Employers' Share of Benefits Earned	22.8	53.4	22.9	38.8	4.1	10.6	2.3	3.1	-	-	6.8	1.7	8.1	174.6
Net Interest	(5.2)	(19.5)	8.3	4.5	(0.3)	1.4	(0.5)	0.8	1.9	0.7	3.1	0.9	9.3	5.4
Amortization of Adjustments	38.4	5.0	1.7	1.3	(0.4)	(0.3)	(0.5)	1.8	(0.2)	0.3	8.3	2.3	2.6	60.3
Change in Valuation Adjustment	39.0	32.5	-	-	(1.7)	-	(2.3)	-	-	-	-	-	-	67.5
Total Retirement Benefit Expense	95.0	71.4	32.9	44.6	1.7	11.7	(1.0)	5.7	1.7	1.0	18.2	4.9	20.0	307.8

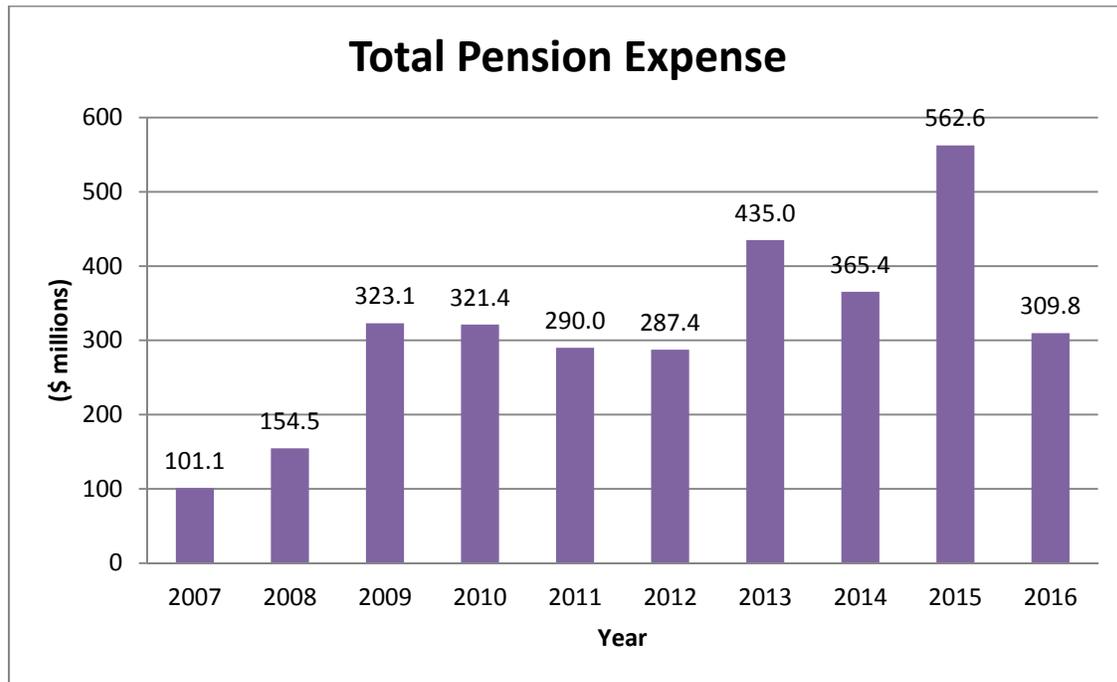
***Pension Expense
and Pension
Contributions***

3.27 Exhibit 3.4 provides details of the Province's total pension expense for the past ten years. For purposes of illustrating the potential volatility of this figure, a longer-term approach of ten years has been provided.

Exhibit 3.4 - Components of Pension Expense

Components of Pension Expense										
(\$ millions)										
	2007	2008	2009	2010	2011	2012	2013	2014	2015 Restated	2016
Employer's share of pension benefits earned	126.1	133.8	146.1	131.6	137.4	148.9	177.4	196.0	161.3	176.6
Net interest expense (revenue)	0.4	(9.1)	20.6	118.2	52.9	32.0	62.7	70.4	38.2	5.4
Plan amendments	5.9	-	-	-	-	-	-	(11.2)	(183.2)	-
Adjustments recognized due to plan amendment	-	-	-	-	-	-	-	-	130.9	-
Amortization of adjustments	(31.2)	30.3	159.7	87.1	99.7	106.5	194.9	132.1	53.4	60.3
Change in valuation adjustment	(0.1)	(0.5)	(3.3)	(15.5)	-	-	-	-	247.0	67.5
Plan settlements <i>(recorded in year as a result of conversion to new pension plan structure)</i>	-	-	-	-	-	-	-	(21.9)	115.0	-
Total pension expense	101.1	154.5	323.1	321.4	290.0	287.4	435.0	365.4	562.6	309.8

Exhibit 3.5 - Total Pension Expense



Pension expense volatility

3.28 Exhibits 3.4 and 3.5 highlight the significant volatility in the annual pension expense over the ten-year period. Pension expense was lowest in 2007 at \$101.1 million and highest in 2015 at \$562.6 million for an increase of \$461.5 million.

Plan settlement pension expenses

3.29 The pension expense for the year ended March 31, 2015 was \$562.6 million, which included a one time plan settlement expense of \$115 million because of the Province's decision to account for the NBTPP using joint defined benefit accounting.

Details of the Province's pension balance

3.30 Exhibit 3.6 provides the history of the Province's pension balance for all pension plans reported in the consolidated financial statements for accounting purposes as well as the important components involved in the pension balance calculation over the past ten years. It is important to note that the pension balance is different than pension expense. In Exhibit 3.6, the pension balance for accounting purposes is the amount that appears on the statement of financial position (or balance sheet) of the Province.

Exhibit 3.6 - Components of the Pension Balance for Accounting Purposes

Components of the Pension Balance for Accounting Purposes										
(\$ billions)										
	2007	2008	2009	2010	2011	2012	2013	2014	2015 Restated	2016
Estimated accrued benefit obligations	7.9	8.3	8.6	8.6	8.9	9.3	10.1	12.3	12.1	12.6
Value of plan assets	8.0	8.0	6.5	7.7	8.4	8.7	9.3	11.5	11.7	11.7
Pension position before accounting adjustments	(0.1)	0.3	2.1	0.9	0.5	0.6	0.8	0.8	0.4	0.9
Accounting adjustments	-	(0.5)	(2.3)	(1.1)	(0.7)	(0.9)	(1.0)	(0.8)	0.2	(0.3)
Pension balance for accounting purposes	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.2)	0.0	0.6	0.6

Note: 2014 numbers present audited financial statement figures with no restatements from subsequent years

3.31 It should be noted the volatility of the plans would be expected to be reduced over the long term with the introduction of the new shared risk/targeted benefit model, however, the exposure to volatility and risk has not been eliminated.

Pension contribution volatility

3.32 Exhibit 3.7 compares the annual pension expense to the amount of contributions made by the Province to the various pension plans.

Exhibit 3.7 – Pension Expense and Contributions

Pension Expense and Contributions										
(\$ millions)										
	2007	2008	2009	2010	2011	2012	2013	2014	2015 Restated	2016
Pension expense	101.1	154.5	323.1	321.4	290.0	287.4	435.0	365.4	562.6	309.8
Employer contributions	257.7	272.8	288.6	307.8	313.3	327.0	350.8	216.5	260.9	257.2
Excess (deficiency) of employer contributions over pension expense	156.6	118.3	(34.5)	(13.6)	23.3	39.6	(84.2)	(148.9)	(301.7)	(52.6)

Note: 2014 numbers present audited financial statement figures with no restatements from subsequent years

3.33 Exhibit 3.7 shows that for six of the past ten years, the Province’s contributions to its various pension plans have been less than the annual pension expense, whereas four of the past ten years the amount of employer contributions exceeded the amount of the pension expense. Over the past ten years, the Province has contributed \$297.7 million less than the pension expense.

3.34 The significant increase in the deficiency of employer contributions compared to pension expense in 2015 (\$301.7 million) relates to a one time “plan settlement” expense for the NBTPP of \$115 million as a result of the Province’s decision to apply joint defined benefit accounting.

Pension contributions for the Province’s two largest plans

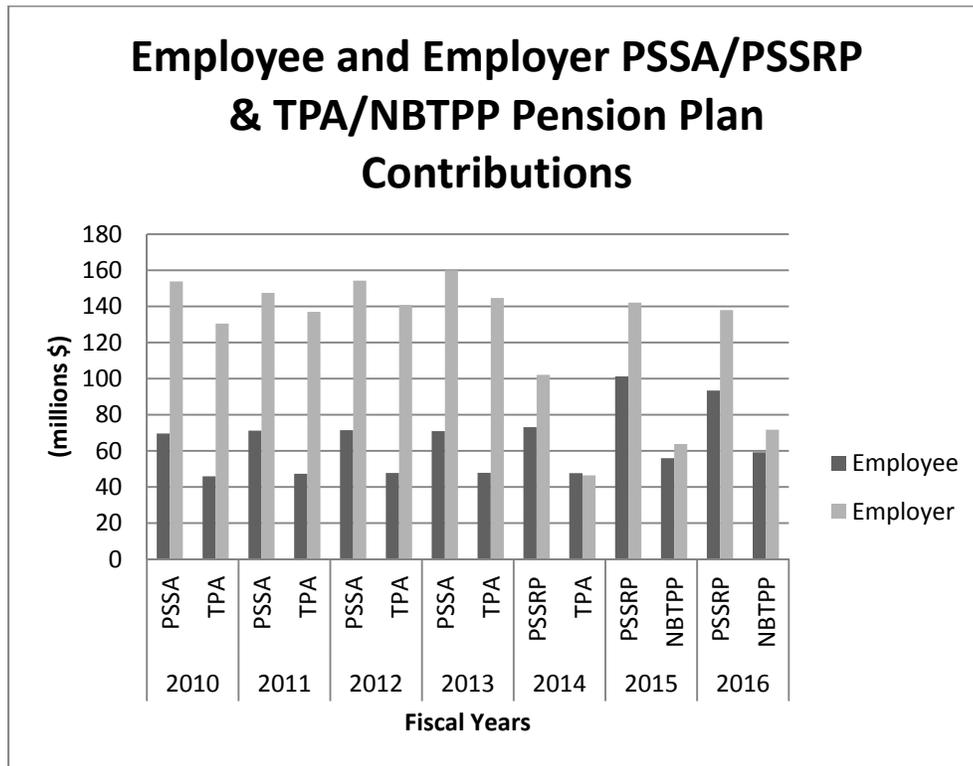
3.35 Further details on pension contributions from 2010 to 2016 for the Province’s two largest plans, the Public Service Superannuation Plan (PSSA), now the PSSRP and the Teacher’s Pension Plan (TPA), now the NBTPP are found in Exhibit 3.8 and Exhibit 3.9.

Exhibit 3.8 – Pension Contributions for the PSSRP/PSSA and NBTPP/TPA Plans

Pension Contributions for PSSRP/PSSA and NBTPP/TPA Plans (\$ millions)							
Fiscal Year	Plan	Employee Contributions	Employer Contributions ¹			Total Employee and Employer Contributions	Ratio of Employer to Employee Contributions
			Normal	Special Payments	Total Employer Contributions		
2016	PSSRP	93.4	138.0	-	138.0	231.4	1.53
	NBTPP	59.2	71.7	-	71.7	130.9	1.28
2015	PSSRP	101.2	142.1	-	142.1	243.3	1.40
	NBTPP	56.0	63.8	-	63.8	119.8	1.14
2014	PSSRP	73.1	102.1	-	102.1	175.2	1.40
	TPA	47.7	46.5	-	46.5	94.2	0.97
2013	PSSA	70.9	92.1	67.9	160.0	230.9	2.26
	TPA	47.9	46.1	98.6	144.7	192.6	3.02
2012	PSSA	71.5	89.4	64.9	154.3	225.8	2.16
	TPA	47.8	46.4	94.4	140.8	188.6	2.94
2011	PSSA	71.2	84.3	63.2	147.5	218.7	2.07
	TPA	47.3	45.1	91.9	137.0	184.3	2.90
2010	PSSA	69.6	92.8	61.0	153.8	223.4	2.21
	TPA	45.9	41.9	88.6	130.5	176.4	2.84
Total 2010-2016	PSSRP	550.9	740.8	257.0	997.8	1,548.7	1.81
	NBTPP	351.8	361.5	373.5	735.0	1,086.8	2.10

¹ PSSRP/PSSA Employer contributions include contributions from the Province, Crown Corporations and other participants.

Exhibit 3.9 – Employee and Employer (PSSRP/PSSA & NBTPP/TPA)



3.36 We noted in Exhibit 3.8, the total employer contributions decreased for the PSSRP by \$4.1 million (3%) and the NBTPP employer contributions increased by \$7.9 million (12%) in fiscal 2016 compared to fiscal 2015. It is important to note that no special payments were made for the PSSRP or the NBTPP/TPA in fiscal 2016, 2015 or 2014.

3.37 In 2015, the \$40.0 million increase in PSSRP (\$17.3 million increase for NBTPP) employer contributions compared to the 2014 results in part relates to an increase in employer contribution rates. Exhibit 3.10 below provides detail on the employer contribution rate changes for the PSSRP and the NBTPP.

Exhibit 3.10 – Employer Pension Contribution Rates

Pension Plan	Employer Rates	
	Prior to New Plan	After New Plan
PSSRP ¹	8.932% up to YMPE ³	12.5%
	11.55% in excess of YMPE	
NBTPP ²	7.3% up to YMPE plus special payments determined by an actuary	11.5% up to YMPE
	9% in excess of YMPE plus special payments determined by an actuary	13.2% in excess of YMPE

¹PSSRP employer contribution rates changed April 1, 2014

²NBTPP employer contribution rates changed July 1, 2014

³YMPE – Yearly Maximum Pensionable Earnings

3.38 As shown in Exhibits 3.8 and 3.9, the total employee contributions increased \$3.2 million (6%) for the NBTPP while the total employee contributions decreased \$7.8 million (8%) for the PSSRP in 2016.

3.39 The ratio of employer to employee contributions for the PSSRP increased from 1.40 in 2015 to 1.53 in 2016. For the NBTPP, the ratio also increased from 1.14 in 2015 to 1.28 in 2016.

Pension Assets Rates of Return

3.40 The net interest component of the pension expense depends primarily on the rate of return earned on pension fund assets. These returns are volatile, as illustrated in Exhibit 3.11 which reports the rates of return for the New Brunswick Investment Management Corporation's (NBIMC) pension funds under management since it was established in 1996 and diversified away from government bonds. The NBIMC serves as trustee and investment manager for the Provincial Court Judges' pension fund, and the investment manager for the PSSRP and NBTPP.

Exhibit 3.11 - NBIMC Rates of Return: Pension funds under management

NBIMC Rates of Return			
Year	Percentage	Year	Percentage
2016	1.66	2006	15.87
2015	14.05	2005	8.51
2014	13.56	2004	25.27
2013	9.08	2003	(6.95)
2012	5.00	2002	3.45
2011	10.42	2001	(5.25)
2010	19.94	2000	20.57
2009	(18.34)	1999	(0.62)
2008	0.79	1998	18.68
2007	8.68	1997	10.14
20 year annualized return			7.20%

3.41 The returns earned by the NBIMC on pension funds under management have ranged from a high of 25.27% in the year ended 31 March 2004 to a low of (18.34) % in the year ended 31 March 2009. Over the past 20 fiscal years the annualized rate of return has been 7.20% for pension funds under management.

Nursing Homes

3.42 In 2016 the Province included for the first time in its financial statements not-for-profit nursing homes operating in New Brunswick. See Exhibit 3.12 for a list of the homes included in the Province's March 31, 2016 consolidated financial statements.

Exhibit 3.12 – Nursing Homes Included in the Province’s March 31, 2016 Financial Statements

Nursing Homes Included in the Province’s March 31, 2016 Financial Statements			
Campbellton Nursing Home Inc.	Campobello Lodge Inc.	Carleton Manor Inc.	Carleton-Kirk Lodge
Central Carleton Nursing Home Inc.	Central New Brunswick Nursing Home Inc.	Dalhousie Nursing Home Inc.	Dr. V. A Snow Centre Inc.
Drew Nursing Home	Forest Dale Home Inc.	Foyer Assomption	Foyer Notre-Dame-de-Lourdes Inc.
Foyer Notre-Dame de Saint-Léonard Inc.	Foyer Saint-Antoine	Foyer Ste-Élizabeth Inc.	Fredericton South Nursing Home Inc. (Pine Grove Nursing Home)
Fundy Nursing Home	Grand Manan Nursing Home Inc.	Jordan Lifecare Centre Inc.	Kennebec Manor Inc.
Kenneth E. Spencer Memorial Home Inc.	Kings Way Care Centre Inc.	Kiwanis Nursing Home Inc.	La Villa Sormany Inc.
Le Foyer St Thomas de la Vallée de Memramcook Inc. – Dr. Camille E. Gaudet	Les Résidences Inkerman Inc.	Les Résidences Jodin Inc.	Les Résidences Lucien Saindon Inc.
Les Résidences Mgr Chiasson Inc.	Lincourt Manor Inc.	Loch Lomond Villa Inc.	Manoir Édith B. Pinet Inc.
Manoir Saint-Jean Baptiste Inc.	Mill Cove Nursing Home Inc.	Miramichi Senior Citizens Home Inc.	Mount St. Joseph of Chatham, N.B.
Nashwaak Villa Inc.	Passamaquoddy Lodge Inc.	Résidence Mgr Melanson Inc.	Rexton Lions Nursing Home Inc.
River View Manor Inc.	Rocmaura Inc.	Tabusintac Nursing Home Inc.	The Church of St. John and St. Stephen Home Inc.
The Salvation Army – Lakeview Manor	Tobique Valley Manor Inc.	Turnbull Nursing Home	Victoria Glen Manor Inc.
Villa Beauséjour Inc.	Villa des Chutes / Falls Villa	Villa du Repos Inc.	Villa Maria Inc.
Villa Providence Shédiac Inc.	Villa St-Joseph Inc.	W.G. Bishop Nursing Home	Wauklehegan Manor Inc.
Westford Nursing Home	White Rapids Manor Inc.	Woolastook Long Term Care Facility Inc (Orchard View)	York Manor Inc.

Background

3.43 In past years, as a matter of routine practice, an accounting assessment has been performed on not-for-profit nursing homes to determine if they need to be included in the Province’s financial statements. In our 2015 Report, Volume III, Chapter 6, we recommended “the Office of the Comptroller (OOC) and the Department of Social Development perform a formal assessment of the substance of provincial activity relating to nursing homes to determine if control for accounting purposes exists under Canadian Public Sector Accounting Standards”. Our office also raised this issue in our 2011 Report, Volume II, Chapter 3.

3.44 It is important to note this assessment is for accounting purposes. Its objective was not to

determine legal control or any other control beyond accounting purposes. This type of assessment is regularly performed by the Office of the Comptroller (OOC) and audited by AGNB for various provincial entities to determine if they need to be consolidated for accounting purposes within the Province's financial statements.

3.45 It is also important to note that this past recommendation applies only to not-for-profit nursing homes in the Province. The Province's for-profit nursing homes operate under a different business structure with less government involvement.

Why did we recommend an accounting assessment for nursing homes in 2015 ?

3.46 In 2015 as we were completing our audit work, we noted a number of new policies and initiatives in the nursing home sector. Some of these activities were as a result of strategic reform or other initiatives. We also became aware of some of this information as a result of a more in-depth review by our Office of the Province's involvement with nursing homes activities.

Implementation of our 2015 recommendation

3.47 In 2016 the OOC followed our recommendation and engaged an expert to complete an accounting assessment. The assessment required significant work and involved analysing several aspects of this complicated accounting question. The results of the assessment concluded that the Province's not-for-profit nursing homes should be consolidated, and therefore the assets, liabilities, revenues and expenses of these nursing homes included in the Province's financial statements.

OOC's accounting conclusion on nursing homes consolidation

3.48 The key reasons the OOC concluded the nursing homes should be consolidated into the Province's financial statements are below:

- 1) The Province's extensive role in determining nursing home budgets, particularly the approval of capital projects;
- 2) The Province's demonstrated role in influencing operating and human resource policies of the homes, such as the mandated staffing skills mix;
- 3) The risk of loss seems to be almost completely borne by the Province—by word, and certainly by past practice;
- 4) The Province's approval and support is

required for nursing homes to borrow funds; and

- 5) The Province's agreement to fund the pension plan deficiency for two out of the three nursing home pension plans for a period of 15 years, exposing the Province to risk of loss.

3.49 Overall there are many parallels in the relationship of the Province with the not-for-profit nursing homes, and the Province's relationship with hospitals (regional health authorities). This would further support that the accounting and reporting for each should be consistent.

3.50 While the nursing homes financial reporting information is not yet available to the level of detail of a regional health authority, the OOC was able to obtain information and record significant nursing home assets, liabilities, revenues and expenses in the Province's financial statements.

3.51 Exhibit 3.13 provides details of the financial impact of consolidating the not-for-profit nursing homes in the Province's financial statements. The data in Exhibit 3.13 includes adjustments to the nursing homes information to be compliant with Public Sector Accounting Standards. Exhibit 3.13 shows the increase in several of the Province's key financial statement balances as a result of the consolidation of nursing homes. This is in addition to the over \$300 million the Province already records annually in its financial statements for nursing home expenses.

Exhibit 3.13 - Financial Impact of Consolidating Not-for-Profit Nursing Homes

Financial Impact of Consolidating Not-for-Profit Nursing Homes		
Increase (Decrease) in \$ millions		
	2015	2016
Assets	37.2	41.3
Non-Financial Assets (e.g. Fixed Assets)	440.3	489.1
Liabilities	559.0	593.2
Net Debt (opening)	497.7	521.7
Accumulated Deficit (opening)	96.9	81.5
Revenues	75.1	85.4
Expenses	59.7*	60.1*

**Note: the above information presents only incremental expenses as a result of the consolidation of nursing homes. This is in addition to the over \$300 million the Province was previously recording annually for nursing home expenses.*

Significant implementation challenges

3.52 While the recommendation was implemented during the 2016 audit year, the implementation was not without significant challenges. These challenges included obtaining comparative (two years) financial information for approximately 60 nursing homes, accounting for employee benefit obligations and harmonizing accounting policies to be compliant with the public sector accounting framework as required in the Province's consolidated financial statements.

Benefits of this accounting change for the Province

3.53 In our view, the inclusion of not-for-profit nursing homes in the Province's financial statements provides more accurate and more complete information about:

- the full obligations of the Province;
- the assets used to provide New Brunswickers services which are largely funded by or through the Province;
- the revenue generated in relation to those services, and
- the expenses incurred to provide those services.

The inclusion of these items in the Province's consolidated financial statements presents a fairer representation of the Province's financial position.

Disappointing nursing home response to OOC requests

3.54 As part of the accounting exercise to record these previously unrecorded nursing home employee benefits liabilities, the OOC requested certain data from nursing homes. Unfortunately only two nursing homes provided the data requested resulting in an increased amount of estimates required in recording nursing homes employee benefit obligations (pension liabilities, retirement allowance obligations, sick leave obligations) in the Province's consolidated financial statements. It also impacted the precision of the employee benefits liability calculation (as the OOC used alternate information to determine appropriate estimates for use in the Province's financial statements). We were disappointed only two nursing homes chose to provide this information to the OOC.

Hopeful for a greater response from nursing homes in the future

3.55 In Chapter 4 of this Volume we have made a recommendation to the OOC to continue to request this information from nursing homes in future years. We hope more homes respond to the OOC request next year.

Contingency Reserve

3.56 As part of its budget for 2016 and 2017, the Province included contingency reserves of \$150 million and \$100 million respectively. As these amounts are significant to the Province's financial statements, we are concerned with how the Province presents this information in its financial statements.

What is meant by the term "contingency reserve"?

3.57 The Province's budgeted contingency reserves do not consist of isolated assets or funds, even though use of the term "reserve" implies some form of an additional source of funds to be used for unexpected program costs. However, there is no such additional fund or reserve; it is simply an amount added to the budget/deficit. As a result, the use of a contingency reserve obscures the true deficit and creates misperception about the Province's true financial state.

Contingency reserve causes unnecessary confusion in reporting the Province's financial results

3.58 Overall, we believe the use of a contingency reserve causes unnecessary confusion in reporting the Province's financial results. The Province's financial results are already complex to interpret and understand. Using a contingency reserve, which allows the Province to fall short on projected revenues or exceed budgeted spending without appearing to go over budget, adds another layer of complexity.

Contingency reserve – budget vs. actuals

3.59 It is the government's prerogative to prepare the budget as it sees fit. However, the actual financial results per the audited financial statements would not recognize such a contingency reserve as a revenue, expense, asset or liability. Therefore Public Sector Accounting Standards do not recognize such a reserve.

Public Sector Accounting Standards require a consistent basis of presentation between budget projections and actual results for valid comparisons

3.60 Under Public Sector Accounting Standards the budget presented in the Province's financial statements needs to be consistent with the accounting used in the Province's financial statements. This is important to ensure readers of the financial statements are able to make valid and legitimate comparisons between budget to actual figures.

Budget presentation differences may be explained in a note to the financial statements

3.61 If the budget as presented in the financial statements is not prepared on the same basis as the actual figures, a reconciliation should be presented in the notes to the financial statements. The reconciliation should identify the approved budget, the actual budget presented in the financial statements, and the show adjustments required between the two.

Pleased with the presentation of the contingency reserve in the Province's 2016 financial statements

3.62 We were pleased the Province did not include the contingency reserve in calculating the annual budgeted deficit in the Province's audited financial statements. We were also pleased the Province included in the notes to its March 31, 2016 consolidated financial statements a reconciliation regarding the budgeted contingency reserve compared to the budget figures presented on the statement of operations.

Will revisit again next year **3.63** We remain concerned about the potential use and presentation of a contingency reserve in the Province’s financial statements, and the confusing or misleading impact it may have on readers or users of the financial statements. We will revisit our examination of this area again in the Province’s March 31, 2017 financial statement audit.

Appendix I – Pension Plan Information

Pension Plan Name Abbreviation	Pension Plan Name	Pension obligations and assets noted in the chapter are measured as at
PSSRP	Public Service Shared Risk Plan	March 31
NBTPP	New Brunswick Teachers' Pension Plan	March 31
H-CUPE	Shared Risk Plan for Canadian Union of Public Employees of NB Hospitals	December 31
H-CBE	Shared Risk Plan for Certain Bargaining Employees of NB Hospitals	December 31
NH-N&P	Pension Plan for Nursing and Paramedical Employees of New Brunswick Nursing Homes	March 31
NH-G&S	Pension Plan for General and Service Employees of New Brunswick Nursing Homes	March 31
NH-Mgmt	Pension Plan for Management Employees of New Brunswick Nursing Homes	March 31
Judges	Provincial Court Act and Provincial Court Judges' Pension Act	March 31
Members	Members' Superannuation Act and Members' Pension Act	March 31
Sch-Mgmt	Pension Plan for Management Employees of New Brunswick School Districts	December 31
Sch-GLTS	Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts	December 31
Sch-2745	Pension Plan for Full-Time CUPE 2745 Employees of New Brunswick School Districts	December 31
SERP	Supplementary Retirement Plan	March 31