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MEMORANDUM TO: Directors of Education
Secretaries of School Authorities

FROM: Kevin Kobus
Assistant Deputy Minister
Business and Finance Division

DATE: March 24, 2004

SUBJECT: PSAB Financial Reporting for School Boards

Purpose

The purpose of this memorandum is to inform you that school boards will be required to adopt Public Sector Accounting Board (PSAB) recommendations for local governments as the financial reporting standard, effective with the preparation of financial statements for the 2003-04 school year (due in November 2004). However, school boards will not be required to consolidate school generated funds in their financial statements until 2004-05.

Background

PSAB establishes accounting and financial reporting standards that are in accordance with generally accepted accounting principles (GAAP) and are deemed appropriate for governments and governmental organizations. The Ontario government uses PSAB for financial reporting. Local municipalities moved to PSAB in 2000.

The ministry set up a workgroup to review the implications of moving to PSAB reporting for school boards. The workgroup was comprised of senior staff from school boards, board external auditors, Ministry of Finance, Canadian Institute of Chartered Accountants (CICA) and Ministry of Education. The working group recommended unanimously the implementation of PSAB for local government effective with the 2003-04 school year.

As you may know, a number of school boards expressed concern about the proposed 2003-04 implementation date, particularly with respect to the consolidation of school funds. Boards indicated that they needed more time to get their systems ready for gathering financial information from their schools for consolidation purposes and to prepare for the change to the new reporting standard and develop communication strategies for trustees, school councils, principals and readers of their financial statements.

Consequently, the ministry will allow a one-year delay to 2004-05 for the consolidation of school funds. This may result in a qualification in the 2003-04 audit report for some boards.

Funding

The ministry will be providing an amount of \$2.6M to district school boards and school authorities to assist with the cost of implementing this financial reporting requirement. The funds will be distributed to each district school board based on \$20,000 per board plus \$200 per school and funding of \$5,000 will be provided for each school authority. Details concerning accountability requirements will be provided as soon as possible.

Benefits

Although the move to PSAB reporting is an important change and an improvement in reporting, it does not affect what boards have to fund in the current year's budget, and therefore will not have a large impact on board operations and board behaviour. The implementation of PSAB reporting is entirely separate from funding and does not change the definition of surplus / deficit under section 232 of the Act.

The major impact of moving to PSAB reporting for school boards is that:

- School boards will have financial statements prepared according to generally accepted accounting principles (GAAP).
- Accumulated liabilities for employee future benefits will be required to be reported.
- Some reporting entities not currently recorded may have to be consolidated (e.g. school funds, foundations, etc.).

In making this change in reporting, it should be noted that:

- It allows for an additional and different way of looking at school boards' financial affairs by providing a more fulsome picture.
- It instils public confidence in the financial statements and responds to questions about the "appropriateness" of current accounting policies.
- Due to recent changes in the CICA Audit Assurance Handbook, school boards would not have been able to get an unqualified audit opinion on their current financial statements. The change to PSAB reporting will allow for clean audit opinions and will eliminate the need for the "special purpose" audit report which was used for the 2002-03 fiscal year.
- It will protect the ability of school boards to secure funds at attractive rates.

- The Office of the Provincial Auditor, in its 2003 Annual Report, recommended that school boards be considered for consolidation into the financial statements of the government for fiscal years commencing April 1, 2005. The move to PSAB prepares the government for this process.

School Funds

I would like to clarify that as boards go through implementation, the consolidation of reporting entities such as school generated funds in the financial statements of school boards is a reporting exercise that is intended to provide better information on school boards on an entity wide basis. This does not alter existing control and management of school-generated funds and activities and in no way alters the school's ability to use the funds for the locally agreed upon initiatives for which the funds were raised. The ministry is planning to issue a memorandum to school councils to provide further clarification.

Implementation and Training

To ensure a smooth transition, a PSAB implementation team has been established to address implementation issues, develop training material and address training needs for school boards in cooperation with OASBO. The team will have the support of the CICA and external auditors throughout the project. School boards will be advised of dates and locations for training sessions, which will take place this spring.

If you have any questions on the above, please contact Marie Li at (416) 326-0201 (email marie.li@edu.gov.on.ca) or Marion Jarrell at (416) 325-2057 or 800-265-4221 ext. 248 (email marion.jarrell@edu.gov.on.ca).

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