Ministry of Education

Office of the ADM
Business & Finance Division
20th Floor, Mowat Block
900 Bay Street
Toronto ON M7A 1L2

Ministère de l'Éducation

Bureau du sous-ministre adjoint
Division des opérations et des finances
20e étage, Édifice Mowat
900, rue Bay
Toronto ON M7A 1L2

Ontario

2011: B08

MEMORANDUM TO:	Directors of Education
FROM:	Gabriel F. Sékaly Assistant Deputy Minister Business and Finance Division
DATE:	August 30, 2011
SUBJECT:	Implementation of the revised government transfer accounting standard

---

The purpose of this memo is to provide direction on the implementation of the Public Sector Accounting Board (PSAB) government transfers accounting standard. The Ontario Ministry of Finance provided direction to school boards on accounting treatment in the document "Addendum to the 2010 Ontario Budget: Ontario's Plan to Enhance Accountability, Transparency and Financial Management". Specifically, the Ministry of Finance directed school boards to follow accounting for capital contributions consistent with the Province of Ontario (the Province) in order to ensure operating surpluses and deficits are not distorted by capital grant revenues. Instruction was provided to record a deferred capital contribution for all capital transfers received. The deferred capital contribution is to be amortized into revenue at the same rate as the amortization of the associated tangible capital asset (TCA). TCA includes all depreciable assets, including buildings, furniture and equipment. Boards have prepared their 2010-11 budgets and revised budgets under this methodology, and will do the same for their 2010-11 financial statements.

In March 2011, PSAB released an updated version of the government transfers standard. The standard allows for recognition of a liability related to a capital transfer (hereafter called DCC). On July 7, 2011, representatives from the Ministry of Education met with an Institute of Chartered Accountants of Ontario (ICAO) Technical Committee to discuss the implementation of the Government Transfers accounting standard in the school board sector. Attached is a copy of the slide deck that was shared with the committee.

Consistent with the implementation of TCA and other previous accounting standards, the Ministry is requiring school boards to implement the standard retroactively in order to have a resulting set of financial statements that are relevant, understandable to the user and comparable over periods and amongst school boards in Ontario. The majority of the Ministry's implementation plan clearly conforms to the Government Transfers standard. There is, however, one area of the implementation which was inconclusive at the ICAO

Committee. This item relates to setting up an opening DCC balance in respect of property tax revenues that were used to fund the construction of depreciable assets (i.e. buildings and building additions). The purpose of this memorandum is to provide direction to school boards in regards to the accounting treatment for such transactions in their 2010-11 Financial Statements to ensure consistency across the sector.

The PSA handbook section on tax revenues is generally used to determine how to account for property tax revenues; however, based on past events in the sector, the Ministry is of the opinion that property tax revenues used to purchase capital should be considered a government transfer. The Ministry direction is to include contributions received through property tax revenues in the opening DCC balance. The reasons for this are articulated below.

The Province and school boards have a unique set of circumstances related to capital. Prior to 1998, many boards funded capital additions through government grants and the issuance of long-term debt which was to be funded by property tax revenue. The Province recognized pre-1998 capital debt through annual debt support grants since 1998 and recognized as grants the outstanding amounts of that debt as part of the Capital Wrap Up process undertaken in 2010. As a result, the debt to be funded by property tax revenue, and that was still outstanding in 1998, was fully supported by provincial funding.

In 1998, there was a significant governance shift over the real property assets of school boards, irrespective of when they were acquired. Prior to 1998, capital acquisitions were funded through a combination of Ministry grants, property tax revenues and reserves. Proceeds from the disposition of property were placed in two distinct reserves, the Ministry Capital Reserve and the Board Capital Reserve. Access to the Ministry Capital Reserve required Ministry approval, whereas access to the Board Capital Reserve did not. In 1998, the Province introduced a regulation that imposed restrictions on whole proceeds of disposition of real property regardless the source of funding. Use of those proceeds requires Ministry approval.

From a cost-benefit perspective, it is not reasonable, or necessarily possible, to calculate capital contributions received through property tax. Generally in this situation, the accounting standard would be applied prospectively; however, the Ministry believes this would not provide relevant financial statements, since TCA was implemented retroactively and on a go forward basis capital transfers (other than transfers related to non-depreciable property) would be recorded as a liability and recognized in revenue over the related asset's useful life. Moreover, school boards have not had taxing power since 1998, which makes this a transition issue only.

Although the assets purchased may have been funded from property tax revenues and government transfers, the Ministry is of the opinion that, because of the provincial control and the retroactive implementation of TCA, inclusion in DCC provides more consistent and comparative results. Readers of the statements should see this through the inclusion of this amount in DCC. This presentation would be fair and comparable across the sector.

To aid in the transition, the Ministry is instructing boards on how to calculate the opening DCC balance. The opening DCC balance will be calculated as the net book value of the depreciable tangible capital assets less the unsupported capital debt, both at August 31, 2010. The unsupported capital debt was determined through the capital wrap-up process, which was described in memoranda 2010:SB22 and 2010:SB49. It is the portion of the boards' outstanding debt that is not supported by Ministry funding. As a result of this methodology, effectively, the capital contributions from local taxation will be included in the opening DCC balance.

This information will be reinforced at the September 2011 training sessions for the 2010-11 financial statements. We are working with the Canadian Institute of Chartered Accountants (CICA) to develop an appropriate sample independent auditor's report. This will be provided during the training sessions. A sample note disclosure explaining this rationale will also be provided during the training. We recommend that you share this memorandum with your auditors and encourage them to accompany you to the training sessions. The Ministry will also be offering a separate one hour training session for the boards' external auditors to provide background on the boards' implementation of the new Government Transfers standard.

In summary, the Ministry is of the opinion that treating past property tax revenue as a government transfer and therefore including it in the opening balance of the DCC is a fair approach given the unique circumstances of this sector as outlined above. This is consistent with the approach taken by the Province on consolidation of the broader public sector entities. This memorandum provides direction to school boards to prepare their 2010-11 financial statements accordingly in support of an accounting treatment as part of a fair presentation framework.

Gabriel F. Sékaly
Assistant Deputy Minister
Business & Finance Division

Attachment: Government Transfers: Implementation Discussion

cc. District School Board Superintendents of Business
School Board Auditors