

**Proposal for establishing a book value, net book value and remaining service life for school board tangible capital assets to be included in the consolidated public accounts of Ontario.**

**BACKGROUND**

In its 2004 Budget, the Ontario Provincial government announced its plans to consolidate school boards, colleges and hospitals in the Provincial Financial Statements starting with its 2005-06 public accounts.

District school boards (DSBs) in Ontario prepare their financial statements based on the PSAB accounting recommendations for local governments. One significant difference that currently exists between the accounting principles for PSAB for local governments and PSAB for senior level governments (provincial government, federal government) is the requirement to capitalize and amortize tangible capital assets. School boards currently expense all capital when acquired and therefore do not have a capitalized value for their tangible capital assets.

Reporting tangible capital assets under PSAB for local government is currently under review by CICA and a statement of principles has been circulated for comments. It is expected that the recommendations regarding tangible capital assets for local governments will be comparable to the recommendations for senior governments but the implementation date is yet to be determined as a result of the consultation process. The province will require the tangible capital asset values for their accounts before the school boards will be required to report them. However, the school boards will also likely require asset information for their own financial statements within a few years.

Assets for school boards consist mainly of school buildings and sites. There are more than 5,000 school facilities and up to 800 administrative and other buildings operated by school boards in the province with initial construction date ranging from the early 1900's to date.

Throughout the historical evolution of boards from single community boards to the larger geographic jurisdictions covering multiple communities and municipal areas, many transfers of assets have taken place:

- In the late 60's, school boards went through reorganizations when 1,663 boards were amalgamated to 239 school boards.
- In 1979, a further restructuring of boards occurred.
- In 1984, the province extended separate school funding beyond grade 10 and implemented this in a phased approach. In the process, school facilities transfers from the Archdiocese to the school boards took place.

- In 1998, the most recent reorganization of boards established 72 district school boards and 35 school authorities. This included the forming of 12 French language district school boards resulting in significant transfers of assets to the newly formed French language boards.

Reporting tangible capital assets for school boards is challenging due to the governance changes that occurred in the system and also due to lack of historical cost information. The ministry will continue to work with school boards and CICA on the implementation of capital assets reporting by school boards in Ontario. Because of the more aggressive timelines for provincial consolidation, it is likely that there will be a time lag between provincial reporting and school board reporting. However, it is the objective of this proposal that the valuations done for provincial reporting will also be used for school board reporting at the appropriate time. The ministry will work with the school boards, their auditors and the ICAO technical committee to meet this objective.

In this phase of implementation, the reporting of school boards' tangible capital assets will be limited to buildings and land and will exclude other assets such as furniture and equipment. This is consistent with the phased-in approach used by the Province in recognizing its tangible capital assets.

#### INFORMATION AVAILABILITY

During the period 1980 to 1997, the ministry used a project specific funding approach for school construction. Capital funding was provided under the Direct Capital Plan. Many of the "Direct Capital Grant Plan Approval" documents may be available within the ministry or from school boards to establish some historical cost data for projects undertaken during this era.

Since 1998, the ministry has moved from a capital project specific funding approach to a funding approach based on a formula driven allocation, using enrolment data, school age and capacity data and costing benchmarks. School boards are no longer required to report expenditures on a project specific basis but on a board aggregate basis. Boards have however indicated that they will be able to provide costing data on projects since 1998 but that any historical cost data that they could retrieve relating to prior years would involve a considerable amount of time.

Since the introduction of the funding model in 1998-99 for district school boards in Ontario, the ministry has collected data relating to school inventory for funding policy review and determination purposes. A School Facility Inventory System (SFIS) was implemented to allow school boards to update information relating to their school facilities on an ongoing basis. A description of information captured under SFIS is listed in Appendix A. The pupil accommodation allocation in the funding model calculates funding using school facilities data in SFIS for schools that are open i.e. where students are enrolled for their education programs. Therefore the information on open schools is quite accurate and complete.

The ministry recently undertook an independent school condition review of all facilities operated by boards. This review was to support the school renewal initiative and to determine the level of repair and betterment that is required in the system. Data relating to this review has been collected using the ReCAPP asset management software and the ministry is providing access to boards through a provincial software licence agreement so that boards can update the databases on-line.

## OBJECTIVES

The goal of this proposal is to meet the following objectives:

1. Determine a method to value the school board tangible capital assets (land and buildings) to be reported in the provinces' public accounts starting in 2005-06.
2. Ensure the book value and amortization determined for the public accounts be maintained and updated to be used by school boards to report in their financial statements when required by PSAB for local governments.
3. The valuation method must adhere to PSAB recommendations for senior government and will take into account the PSAB Statement of Principles on Assessing the Applicability of Tangible Assets, Section PS3150 to Local Governments in Canada.
4. The valuation method must be acceptable to the Provincial auditors and will be shared with school board auditors to streamline and facilitate the eventual implementation of Tangible Capital Assets reporting by school boards.
5. The valuation method must be implemented to meet the timelines for the 2005-06 public accounts.
6. The valuation method should be cost effective – recognizing the balance between accuracy and materiality in determining estimated historical cost.

## PSAB HANDBOOK GUIDANCE

Section PS 3150.48 states “When a government does not have historical cost accounting records for its tangible capital assets, it will need to use other methods to estimate the cost and accumulated amortization of the assets....A government should apply a consistent method of valuing the tangible capital assets for which it does not have historical cost records, except in circumstances where it can be demonstrated that a different method would provide a more accurate estimate of the cost of a particular type of tangible capital asset.”

## OVERVIEW OF VALUATION APPROACH

The ministry is proposing to use a computer software program called the “Book Value Calculator” (BVC) to determine the gross and net book values, remaining service life and amortization for all school board buildings and a gross book value for land.

The BVC was designed by the Appraisals Directorate at Public Works and Government Services Canada and was used by the federal government in 2001 upon the introduction of full accrual accounting and the requirement to capitalize tangible capital assets. The Ontario government also used the BVC to estimate the value of government land and buildings when those capital assets were included in the provincial accounts.

The BVC uses various cost indices and calculated betterment rates to determine the estimated book values. The key inputs required are:

- Historical acquisition date or estimated acquisition date
- Historical cost or an estimated cost as at a date which is factored back to the estimated historical cost and;
- the condition of the asset

The Ministry of Education and the Ministry of Finance are currently negotiating with the Ontario Realty Corporation (ORC) to enter into an agreement where ORC will assist with the implementation of the valuation project using the Book Value Calculator. The ORC will bring to this project their previous experience when they assisted the Province in the valuation of capital assets using an approach involving estimated cost and the Book Value Calculator.

Assuming the BVC methodology is acceptable, the remainder of this proposal deals with how the Ministry of Education will determine the value of the key inputs to be entered into the BVC for each building and piece of land owned by school boards.

#### Acquisition Date:

Land: The historical acquisition date will be used whenever available. If not available, the acquisition date will be estimated based on the best alternate sources of information.

Buildings: The SFIS includes information on the construction dates of original school buildings and additions. School boards will be requested to review this information and in addition provide any missing date information for their inventory of buildings.

The date used for the BVC will be based on the original construction date or a weighted average date of construction where there have been significant additions over time.

#### Asset Condition:

The asset condition will be derived from the data available in the ReCapp Asset Management software for all active schools. A condition assessment of other school board buildings will have to be made.

## Estimated Cost:

Determining a historical cost or estimated cost of land and buildings at a certain date is the most complicated part of the valuation process. The ministry is proposing to address this with a variety of ways depending on the availability of historical cost information, the type of tangible capital asset (land or building) and the year built or acquired.

The proposal uses the following assumptions:

- Historical cost is the preferred value. This value will be used whenever there is some available documentation to support this amount.
- Historical cost of land prior to 1965 will not be material. A residential piece of land worth \$100 in 2000 would cost less than \$9 in 1964.
- Schools and school-type building costs can be reasonably estimated using an average construction cost benchmark.
- An Appraiser estimate of costs for land acquired more recently is an effective method of estimating these costs.
- The incremental cost of an appraiser estimating a building cost while evaluating the land cost is a cost-effective method of determining a more accurate estimated cost for buildings constructed in or after 1965.

### 1. Historical cost will be used whenever reasonably available for buildings and land.

- School boards will be requested to provide historical cost information for ALL land where available.
- School boards will be requested to provide historical cost information for all building projects undertaken since 1998.
- “Direct Capital Grant Plan” approval documents will be used to establish historical cost for buildings constructed between 1980 and September 1998 where available.
- Where “Direct Capital Grant Plan” approval documents are not available, or for buildings constructed prior to 1980, other information substantiating historical cost will be used where available.

### 2. When Historical cost data is not available:

The ministry is proposing to use a cost estimation approach that will take into account the type of building (i.e. School vs. Other) and the age of the property.

- a. Land and buildings where the building was originally constructed ON or AFTER 1965
  - An estimated cost will be assigned to the land and building by an independent appraiser.
- b. Land and buildings where the building was originally constructed BEFORE 1965,
  - Value the land at a nominal amount (\$1) and

- The cost of all school or school-type buildings will be estimated utilizing a 1998 school construction benchmark multiplied by the sq. footage of the building as recorded in SFIS.
- The cost of other non-school type buildings will be estimated by an independent appraiser.

WHERE HISTORICAL COST INFORMATION IS NOT AVAILABLE		
	1965 or later	Pre- 1965
School or "School-type" Buildings and Land	Appraiser Estimate of Building and Land	Benchmark Estimate of Building; Land at Nominal Value
Other Buildings or Land	Appraiser Estimate of Building and Land	Appraiser Estimate of Building; Land at Nominal Value

3. Portables and Relocatable Classroom Modules: Cost values will be estimated based on current costs for similar structures.

### LAND AND BUILDING INVENTORY

There are approximately 5,600 active buildings (5009 schools) in the SFIS system of which almost 2200 are schools built on or after 1965. Other buildings consist of all buildings other than those identified as elementary or secondary schools. These include buildings such as school board administration facilities, outdoor recreation centres, media centres, warehouses, etc.

Historical cost information should be available from the school boards for all of the approximately 375 school buildings built since the most recent amalgamation in 1998.

It is estimated that Direct Capital Grant Plan information will be available for at least 500 (60%) of the approximately 850 buildings constructed between 1980 and 1998.

Based on the above estimates, approximately:

- 875 school buildings and land will have historical cost information available
- 1325 school buildings and land will have an estimated cost assigned by an appraiser
- 2800 school building costs will be estimated using the benchmark construction cost method and the land will be estimated at a nominal value,
- Many of the 600 other buildings and associated land may have to be appraised however, historical cost will be used when available and the benchmark construction cost will be used where applicable (school-type buildings). Pre-1965

land will be estimated at a nominal value where historical cost data is not available.

### BENCHMARK CONSTRUCTION COSTS:

The ministry of education established an expert panel on Pupil Accommodation Grant in 1997. The mandate of the panel included a review the proposed funding approach for pupil accommodation and recommendation of benchmarks for determining grants to fund school construction.

The ministry introduced new funding benchmarks in 1998-99 for providing allocations for new pupil places. These benchmarks represented construction costs per square foot for elementary schools and for secondary schools amortized over 25 years and funding is provided to allow boards to long term finance their constructions costs to meet their accommodation needs. The construction cost benchmarks that were used are consistent with the average elementary and secondary school construction costs published independently in the 1997 version of “Yardsticks for Costing”. The components of the funding benchmarks are provided in Appendix B.

In view of the fact that school buildings across the province are relatively homogeneous facilities relating to their use (i.e. have classrooms, administrative components, gymnasiums, for student use) on average there would not be large variations in gross construction costs due to design.

### CONCLUSION

The proposed approach is consistent with the recommendation of the CICA PSAB Statement of Principles concerning tangible capital assets for local governments in that it uses the Book Value Calculator applied on a consistent basis to estimate the historical cost of school board tangible capital assets. The inputs into the Book Value Calculator will be determined in a consistent way based the availability of historical information, and the age of the building.

The estimated book values can be updated and maintained with actual cost information into the future to be used by the government and school boards to report in their financial statements when required by PSAB for local governments.

This valuation method is cost effective and can be implemented within the timeframe of the 2005/06 public accounts.

This approach will provide the basis for capital assets reporting by individual boards and will therefore facilitate implementation at the board level.

This approach will minimize the amount of information that is required from district school boards.

## Appendix A –School Facilities Inventory System (SFIS) data

Select School	8835 Agnes Macphail PS
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**SFIS ID** 8835  
**DSB Number** 12  
**Board ID** 66052

### Facility Information

**Campus ID** 9722  
**Facility Name** Agnes Macphail I

**Facility Type** Elementary  **If facility type is OTHER, please specify :**

**ADE 2004-2005** 372.5

**Status** Open  **Desc**

**Grades Served** JK  to 8

- School**
- Initial Check**
- Problem Resolved**



- Facility Updated
- Updates Validated

Last Updated  Check Date

Language of Instruction	<input type="text" value="English"/>
BSID Number	<input type="text" value="005479"/>
Board Facility Number	<input type="text" value="4-110"/>
Street Address	<input type="text" value="112 Goldhawk k Tr"/>
City/Town	<input type="text" value="Agincourt"/>
Postal Code	<input type="text" value="M1V 1W5"/>

### Ownership Status of Facility

Ownership	<input type="text" value="Exclusive Ownership"/>
Size of Permanent Facility (m <sup>2</sup> )	3730
Size of Non Permanent Facility (m <sup>2</sup> )	0
Total GFA (m <sup>2</sup> )	3730
Size of Site (hectares)	<input type="text" value="2.02"/>

### Use of the Facility

- |   |   |
|---|---|
| <input checked="" type="checkbox"/> Elementary programs | <input type="checkbox"/> Secondary programs                       |
| <input type="checkbox"/> Adult day school programs      | <input checked="" type="checkbox"/> Continuing education programs |
| <input type="checkbox"/> Outdoor education programs     | <input type="checkbox"/> Other instructional programs             |

- Administrative uses
- Warehouse
- Residential or commercial property
- Vacant
- Maintenance or transportation facility
- Lease to other parties
- Partially vacant

DSB Number: 12 SFIS ID: 8835 Facility Name: Agnes Macphail PS

BSID Number: 005479 Language: English

Action	Year Built	Gross Floor Area (m <sup>2</sup> )	Type	Comments
<input type="button" value="Insert"/>	<input type="text"/>	<input type="text"/>	Addition <input type="button" value="v"/>	<input type="text"/>
<input type="button" value="Update"/> <input type="button" value="Delete"/>	1981	3730	Original	<input type="text"/>
<b>Total Permanent GFA</b>		<b>3730</b>		

### Add New Non-Permanent Space

Action	Number of Units	Number	Year of Manufacture	Gross Floor Area (m <sup>2</sup> )	Current Use	Comments
<input type="button" value="Add Portable"/>		<input type="text"/>	<input type="text"/>	<input type="text"/>	Classroom <input type="button" value="v"/>	<input type="text"/>
<input type="button" value="Add Portapak"/>	2 <input type="button" value="v"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>		<input type="text"/>
<input type="button" value="Add RCM"/>	1 <input type="button" value="v"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>		<input type="text"/>

**Appendix B – 1998 Funding Formula – Benchmark Construction Costs for New Elementary and Secondary Schools**

**Construction Cost Benchmark for Elementary Schools**

Cost per Square Foot to Construct (Source: Yardsticks for Costing, 1997)		\$91.32
Site Development Costs		\$4.50
Soft costs (Consulting Fees, permits, etc.)	10%	\$9.58
Furniture and Equipment	10%	\$9.13
Sub-total		\$114.53
G.S.T. (net of rebate)	2.31%	\$2.65
<b>Total</b>		<b>\$117.18</b>

**Construction Cost Benchmark for Secondary Schools**

Cost per Square Foot to Construct (Source: Yardsticks for Costing, 1997)		\$95.19
Site Development Costs		\$4.50
Soft costs (Consulting Fees, permits, etc.)	10%	\$9.97
Furniture and Equipment	15%	\$14.28
Sub-total		\$123.94
G.S.T. (net of rebate)	2.31%	\$2.86
<b>Total</b>		<b>\$126.80</b>