

2010

# PSAB & SCHOOL BOARD FINANCIAL REPORTING

GENERAL GUIDE

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# PSAB & SCHOOL BOARD FINANCIAL REPORTING A GENERAL GUIDE

## INTRODUCTION AND BACKGROUND

Those given control of public money face two great tasks. First, they must make sure that the public's money is spent wisely. Second, and nearly as important, they must be able to *show* that it has been spent wisely. Financial statements, clearly presented and externally verified, make an important contribution to this second role.

With this in mind in March 2004, following significant discussion and input from school boards, the boards' external auditors, and the Canadian Institute of Chartered Accountants (CICA), the Ministry of Education announced that Ontario's school boards would be required to adopt Public Sector Accounting Board (PSAB) recommendations for local governments as their financial reporting standard.

What is PSAB? What are the PSAB standards and how will they affect school boards' financial reporting? When and how will the change be implemented? This booklet is designed to provide the answers to these, and other, questions for trustees, parents and other stakeholders in local school boards.

## WHAT IS PSAB?

PSAB stands for the Public Sector Accounting Board of the CICA. This body sets the financial reporting standards and generally accepted accounting principles for governments with an eye on enhancing

the usefulness of public sector financial statement information and the usefulness of public sector financial and non-financial performance information. These standard and principles are laid out in the *CICA – Public Sector Accounting Handbook*.

## WHY CHANGE?

### INFORMATION FOR DECISION-MAKING AND ACCOUNTABILITY

Trustees, parents, taxpayers, lenders and other stakeholders need clear and complete information about all of the assets, liabilities, revenues and expenditures of a school board to make informed decisions.

Historically, school boards have issued financial statements based on accounting principles deemed appropriate for them that by and large conformed to generally accepted accounting principles. Over the years, however, there was a growing divergence between the financial reporting practices of school boards in Ontario and the "generally accepted accounting principles" (GAAP) recommended by the CICA.

The adoption of PSAB recommendations will ensure that school board financial reporting needs are met both now and in the future. Financial statements prepared according to a recognized accounting standard will provide school board financial information that is useful, comprehensive, comparable and consistent.

## COMPLIANCE WITH AUDIT ASSURANCE STANDARDS

Boards are required to publish audited financial statements and make them available to the local community and others. These statements were considered to be general-purpose financial statements. However because of changes made by the CICA to their audit and assurance standards in September 2003, external auditors could no longer give a “clean”(unqualified) opinion on the board’s financial statements as general-purpose financial statements because they were prepared with some exceptions from generally accepted accounting principles. As an interim measure, school boards issued special purpose statements for the 2002-2003 fiscal year. The auditors had to note that these statements did not follow GAAP, were meant only for the use of Trustees of the Board and the Ministry of Education, and should not be used by anyone else for other than the intended purpose. Following PSAB recommendations (which is appropriate GAAP for school boards), will ensure that school boards issue audited general-purpose financial statements.

## OTHER LEVELS OF GOVERNMENT

Adoption of PSAB recommendations will also bring school board financial reporting in line with other levels of government. The federal government, the provincial government and local municipal governments in Ontario have already adopted PSAB accounting standards for financial reporting. Local governments and school boards strongly resemble

each other in a number of ways. They are bound by similar legislative and regulatory environments and they both have locally elected representatives. Many of the people who use local government statements prepared in accordance with PSAB – the media and local taxpayers – to name just two, will also use schoolboard statements.

## WHAT ARE THE PSAB STANDARDS?

Laid out in the *PSA Handbook*, the standards specify the type and format of the financial statements; the information to be reported and disclosed; and the basis of accounting that specifies when revenues, expenditures, assets and liabilities should be recognized in the financial statements. The standards also provide the rules to determine if related organizations’ financial information must be included in the school board’s financial statements.

## HOW WILL SCHOOL BOARD FINANCIAL REPORTING BE AFFECTED?

Stakeholders reading financial statements prepared under PSAB standards will notice changes in the presentation of material (see the sample Statement of Financial Position later in this booklet as an example of this). In addition, there are some significant changes in the methods used to record some items within the financial statements. Some of the more significant changes are explained below.

## CONSOLIDATION

PSAB standards require that the revenue, expenditure, assets and liabilities of all organizations “controlled” by the board must be reported in the board’s financial statements. This requirement may affect organizations such as cooperatives and foundations and also applies to funds raised by local schools. Control is defined in the PSA Handbook.

Although funds collected and spent by various schools and school councils must be included in the financial statements, boards, schools and school councils should note that this reporting in no way affects the control and management of these funds. School councils, student councils or teacher/parent groups will still be able to raise funds in the same manner as previously, and they will still be responsible for how those funds are used. Only summary information on school funds will be presented in the board’s financial statements. The amounts involved will not be reported in the board’s financial statements on a school-by-school basis.

Because the Ministry of Education recognizes that boards may have difficulty gathering this data, they will not be required to include school-based funds in their financial statements until next year (2004-05). This should give them time to work together with their schools and school councils on the processes and procedures for recording and reporting this information, and time also to determine which school-related groups must be included in their statements.

## LIABILITIES FOR EMPLOYEE BENEFITS

One of the major changes in the information to be provided in the new financial statements involves the calculation and presentation of the expense and liability relating to benefits promised to employees by school boards but paid out in the future. Common examples of such benefits are retirement or sick-leave gratuity plans, health and dental coverage after retirement or self-insured long-term disability payments. *PSA Handbook* accounting standards require that such expenses be recognized over the working life of the employee or when specific events occur – not when it is paid out – and that the amounts are to be based on a detailed actuarial study. In 2002-03, all district school boards were required to report this information in the Notes to the Financial Statements. Statements prepared under PSAB will include the actuarially determined liability and expense in the financial statements proper.

## BALANCED BUDGET

Under section 231 of the Education Act, every school board is required to balance its budget. In the past, the board’s financial statements focused on the board’s operating surplus/deficit. Revenues and expenditures were defined in relation to the board’s current requirement for funds, and although there were individual statements showing capital and reserve fund activities during the year, there was no combined statement of financial activities. The new financial statements will include a consolidated statement of financial activities showing the activities

in all funds, as well as information on each individual fund of the board.

With the adoption of PSAB standards, the revenues and expenditures to be shown on the financial statements are defined in the PSA Handbook and are different from the amounts included when determining the board's operating budget. This does not mean that a board's surplus/deficit calculation is different or that the budget amounts are not reported – they are just reported in a different manner. PSAB recognizes the value and need for a school board to report in compliance with legislative requirements, and information about the current operating fund must be disclosed. The operating fund balance reported on the Statement of Financial Position represents the board's accumulated surplus or deficit. The current year's activities affecting the current year's budget will be reported in a separate Schedule of Operating Fund on the statements submitted to the Ministry of Education.

## RESERVES

There are a number of specific requirements in the regulations under the Education Act that require school boards to place monies into reserve funds – these reserves are “externally restricted” under PSAB rules. Examples of these externally restricted reserves include the classroom reserve fund, the special education reserve fund and pupil accommodation reserve fund. Under PSAB, grants with restrictions on them will only be recorded as revenue when they are spent for the required

purpose and the unspent fund balances will be reported in the liability section (Deferred Revenue-Reserves) on the Statement of Financial Position.

In addition, boards sometimes set aside funds in special purpose reserves or in working fund reserves. Activity in these “internally restricted” reserves is reported as part of the financial position of the board on the Statement of Financial Position.

## WHEN AND HOW WILL THE NEW STANDARDS BE IMPLEMENTED?

Financial statements for the year ending August 31, 2004, issued at the end of November 2004, will be prepared using the PSA Handbook recommendations (with a one-year delay in reporting school fund information). The implementation of the PSAB standards does create challenges. Local board staffs are unfamiliar with the new recommendations or standards and the ministry is moving quickly to help them with specialized training sessions, new learning materials and on-going support throughout the process. However, having clear, consistent audited financial statements based on recognized accounting standards play an important part in enhancing accountability for school board finances.

The *PSA Handbook* requires the preparation and presentation of three summary financial statements as well as information on any fund balances (operating, capital, reserves and school activities). The following are provided as examples of what the new statements and schedules will look like:

STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position shows the financial assets, liabilities, non-financial assets and fund balances of the school board. It replaces the previous Balance Sheet.

EXAMPLE DISTRICT SCHOOL BOARD  
STATEMENT OF FINANCIAL POSITION  
AS AT AUGUST 31, 2004

	2004	2003
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents		
Accounts receivable	28,771	16,671
Investments	-	-
Other	-	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>28,771</b>	<b>16,671</b>
<b>FINANCIAL LIABILITIES</b>		
Temporary borrowing	40,855	16,799
Accounts payable & Accrued liabilities	17,427	21,450
Other	2,466	983
Net debt	38,771	42,467
Deferred revenue - reserves	2,363	1,805
Deferred revenue - other	-	-
Employee benefits payable	45,000	40,000
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>146,882</b>	<b>123,504</b>
<b>NET FINANCIAL ASSETS (LIABILITIES)</b>	<b>(118,111)</b>	<b>(106,833)</b>
<b>NON-FINANCIAL ASSETS</b>		
Prepaid Expenses	3,500	2,966
Inventories of supplies	-	-
<b>TOTAL NON-FINANCIAL ASSETS</b>	<b>3,500</b>	<b>2,966</b>
<b>NET ASSETS</b>	<b>(114,611)</b>	<b>(103,867)</b>
<b>FINANCIAL POSITION</b>		
Operating Fund	(4,687)	(3,313)
Capital Fund	(23,147)	(14,776)
Reserve Fund	2,594	464
School Activities Fund	-	-
<b>TOTAL FUND BALANCE</b>	<b>(25,240)</b>	<b>(17,625)</b>
<b>Amounts to be recovered</b>	<b>(89,371)</b>	<b>(86,242)</b>
<b>NET FINANCIAL POSITION</b>	<b>(114,611)</b>	<b>(103,867)</b>

STATEMENT OF FINANCIAL ACTIVITIES

The Statement of Financial Activities shows the revenues, expenditures, changes in non-financial assets and changes in amounts to be recovered for all funds on a consolidated basis. Because they cancel each other out, all transfers to or from other funds are eliminated on this schedule.

EXAMPLE DISTRICT SCHOOL BOARD  
STATEMENT OF FINANCIAL ACTIVITIES  
YEAR ENDED AUGUST 31, 2004

	2003-04 BUDGET	2003-04 ACTUAL	2002-03 ACTUAL
<b>REVENUES</b>			
Local taxation	140,816	128,994	135,187
Provincial grants - Student Focused Funding	225,509	232,469	220,647
Provincial grants - Other	400	4,398	4,078
Federal grants & fees	-	699	915
Other revenues - School boards	-	-	2
Other fees & revenues	1,275	3,596	1,813
Investment income	-	-	-
School fundraising & other revenues	-	-	-
<b>TOTAL REVENUE</b>	<b>368,000</b>	<b>370,156</b>	<b>362,642</b>
<b>EXPENDITURES</b>			
Instruction	286,270	305,721	285,925
Administration	10,810	11,207	12,234
Transportation	10,619	10,856	10,900
School operations & maintenance	40,819	40,284	45,559
Pupil Accommodation	12,167	13,059	12,659
Other	619	307	1,552
School funded activities	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>361,304</b>	<b>381,434</b>	<b>368,829</b>
<b>NET REVENUE (EXPENDITURE)</b>	<b>6,696</b>	<b>(11,278)</b>	<b>(6,187)</b>
Increase (Decrease) in Prepaid Expenses	-	534	-
Increase (Decrease) in Inventories of Supplies	-	-	-
<b>INCREASE IN NON-FINANCIAL ASSETS</b>	<b>-</b>	<b>534</b>	<b>-</b>
<b>CHANGE IN NET ASSETS/(LIABILITIES)</b>	<b>6,696</b>	<b>(10,744)</b>	<b>(6,187)</b>
<b>FINANCING TRANSACTIONS</b>			
Long term financing issued	-	-	-
Debt repayments and sinking fund contributions	(3,696)	(3,696)	(2,630)
Increase (Decrease) in unfunded liabilities	-	6,825	3,775
<b>CHANGE IN AMOUNTS TO BE RECOVERED</b>	<b>(3,696)</b>	<b>3,129</b>	<b>1,145</b>
<b>CHANGE IN FUND BALANCES</b>	<b>3,000</b>	<b>(7,615)</b>	<b>(5,042)</b>
Opening Fund Balances	(3,000)	(17,625)	(12,583)
<b>Closing Fund Balances</b>	<b>-</b>	<b>(25,240)</b>	<b>(17,625)</b>

STATEMENT OF CHANGES IN FINANCIAL POSITION

The Statement of Changes in Financial Position is new to school board financial statements. It shows how the school board meets its cash requirements by using existing financial assets, by raising revenue, by incurring liabilities or by borrowing.

EXAMPLE DISTRICT SCHOOL BOARD  
STATEMENT OF CHANGES IN FINANCIAL POSITION  
YEAR ENDED AUGUST 31, 2004

	2003-04	2002-03
<b>OPERATIONS</b>		
Net revenue (expenditure)	(11,278)	(6,187)
<b>SOURCES AND (USES):</b>		
Decrease (Increase) in accounts receivable	(12,100)	4,612
Decrease (Increase) Other financial assets	-	-
Increase (Decrease) in Accounts payable & Accrued liabilities	(4,023)	2,011
Increase (Decrease) in Other liabilities	1,483	4,000
Increase (Decrease) in deferred revenues - reserves	558	
Increase (Decrease) in deferred revenues - other	-	
Increase (Decrease) employee benefits payable	5,000	
<b>NET INCREASE/(DECREASE) IN CASH FROM OPERATIONS</b>	<b>(20,360)</b>	<b>4,436</b>
<b>INVESTING</b>		
Decrease (Increase) in Investments	-	1,000
<b>NET INCREASE/(DECREASE) IN CASH FROM INVESTING</b>	<b>-</b>	<b>1,000</b>
<b>FINANCING</b>		
Long term liabilities issued	-	-
Debt repaid and sinking fund contributions	(3,696)	(2,630)
<b>NET INCREASE/(DECREASE) IN CASH FROM FINANCING</b>	<b>(3,696)</b>	<b>(2,630)</b>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(24,056)</b>	<b>2,806</b>
Opening Cash and Cash Equivalents	16,799	(19,605)
<b>Closing Cash and Cash Equivalents</b>	<b>(40,855)</b>	<b>(16,799)</b>

## SCHEDULE OF OPERATING FUND

The Schedule of Operating Fund is designed to show the activity in the Operating Fund of the board. The change in the Operating Fund balance represents the in-year surplus/deficit of the school board. The Operating Fund balance represents the accumulated surplus/deficit of the board.

EXAMPLE DISTRICT SCHOOL BOARD  
SCHEDULE OF OPERATING FUND  
YEAR ENDED AUGUST 31, 2004

	2003-04 BUDGET	2003-04 ACTUAL	2002-03 ACTUAL
<b>REVENUES</b>			
Local taxation	140,816	128,994	135,187
Provincial legislative grants	225,509	232,469	220,647
Provincial grants - Other	400	4,398	4,078
Federal grants & fees		699	915
Other revenues - School boards		-	2
Other fees & revenues	1,275	3,596	1,813
Investment income		-	-
<b>TOTAL REVENUE</b>	<b>368,000</b>	<b>370,156</b>	<b>362,642</b>
<b>EXPENDITURES</b>			
Instruction	283,011	296,238	280,317
Administration	10,810	10,970	11,934
Transportation	10,619	10,856	10,900
School operations & maintenance	40,819	38,181	43,559
Pupil Accommodation	4,516	5,685	937
Other		307	826
<b>TOTAL EXPENDITURES</b>	<b>349,775</b>	<b>362,237</b>	<b>348,473</b>
<b>NET REVENUE (EXPENDITURE)</b>	<b>18,225</b>	<b>7,919</b>	<b>14,169</b>
Increase (Decrease) in Prepaid Expenses		534	-
Increase (Decrease) in Inventories of Supplies		-	-
<b>INCREASE (DECREASE) IN NON-FINANCIAL ASSETS</b>	<b>-</b>	<b>534</b>	<b>-</b>
Debt principal repayments	(3,696)	(3,696)	(2,630)
Increase (Decrease) in Unfunded liabilities		6,825	3,775
<b>CHANGE IN AMOUNTS TO BE RECOVERED</b>	<b>(3,696)</b>	<b>3,129</b>	<b>1,145</b>
<b>NET TRANSFERS (TO)/FROM OTHER FUNDS</b>			
Transfers (to)/from Capital Fund	(11,529)	(10,826)	(17,136)
Transfer (to)/from Reserve Fund		(2,130)	-
Transfer (to)/from School Activities Fund		-	-
<b>NET TRANSFERS (TO)/FROM OTHER FUNDS</b>	<b>(11,529)</b>	<b>(12,956)</b>	<b>(17,136)</b>
<b>CHANGE IN OPERATING FUND BALANCE</b>	<b>3,000</b>	<b>(1,374)</b>	<b>(1,822)</b>
<b>Opening Balance - Operating Fund</b>	<b>(3,000)</b>	<b>(3,313)</b>	<b>(1,491)</b>
<b>Closing Balance - Operating Fund</b>	<b>-</b>	<b>(4,687)</b>	<b>(3,313)</b>

SCHEDULE OF CAPITAL FUND

The Schedule of Capital Fund shows the activity in the board's Capital Fund and the change in the Capital Fund balance. The Capital Fund balance represents the amount the board has spent for capital projects where permanent financing has not yet been arranged less any amounts financed but not yet spent.

EXAMPLE DISTRICT SCHOOL BOARD  
SCHEDULE OF CAPITAL FUND

	2003-04 BUDGET	2003-04 ACTUAL	2002-03 ACTUAL
<b>REVENUES</b>			
Federal Grants			
Education Development Charges			
Other Revenues			
Investment Income			
<b>TOTAL REVENUES</b>			
<b>CAPITAL EXPENDITURES</b>			
Instruction	3,259	9,483	5,608
Administration		237	300
Transportation			
School Operations & Maintenance		2,103	2,000
Pupil Accomodation	7,651	7,374	11,722
Other	619		726
<b>TOTAL EXPENDITURES</b>	<b>11,529</b>	<b>19,197</b>	<b>20,356</b>
<b>NET REVENUE (EXPENDITURE)</b>	<b>(11,529)</b>	<b>(19,197)</b>	<b>(20,356)</b>
<b>LONG TERM FINANCING</b>			
<b>NET TRANSFERS FROM/(TO) OTHER FUNDS</b>			
Transfers from/(to) Operating Fund	11,529	10,826	17,136
Transfers from/(to) Reserve Fund			
Transfers from/(to) School Activities Fund			
<b>NET TRANSFERS FROM/(TO) OTHER FUNDS</b>	<b>11,529</b>	<b>10,826</b>	<b>17,136</b>
<b>CHANGE IN CAPITAL FUND BALANCE</b>		<b>(8,371)</b>	<b>(3,220)</b>
<b>Opening Balance - Capital Fund</b>		<b>(14,776)</b>	<b>(11,556)</b>
<b>Closing Balance - Capital Fund</b>		<b>(23,147)</b>	<b>(14,776)</b>

SCHEDULE OF RESERVE FUNDS

The Schedule of Reserve Funds shows the activity in the “internally restricted” reserve funds of the board and the transfers to and from the other funds.

EXAMPLE DISTRICT SCHOOL BOARD  
SCHEDULE OF RESERVE FUNDS

	2003-04 BUDGET	2003-04 ACTUAL	2002-03 ACTUAL
<b>REVENUES</b>			
Investment Income	-	-	-
<b>NET REVENUE</b>	-	-	-
<b>NET TRANSFERS (TO)/FROM OTHER FUNDS</b>			
Transfers from/(to) Operations	-	2,130	-
Transfer from/(to) Capital	-	-	-
Transfer from/(to) School Activities Fund	-	-	-
<b>NET TRANSFERS (TO)/FROM OTHER FUNDS</b>	-	2,130	-
<b>CHANGE IN RESERVE FUND BALANCE</b>	-	2,130	-
<b>Opening Balance - Reserve Fund</b>	-	464	464
<b>Closing Balance - Reserve Fund</b>	-	2,594	464

SCHEDULE OF SCHOOL ACTIVITIES FUND

The Schedule of School Activities Fund will show the activity and balances for school funds that have been consolidated into the board’s financial statements.

EXAMPLE DISTRICT SCHOOL BOARD  
SCHEDULE OF SCHOOL ACTIVITIES FUND

	2003-04 BUDGET	2003-04 ACTUAL	2002-03 ACTUAL
<b>REVENUES</b>			
School fundraising & other revenues	-	-	-
<b>EXPENDITURES</b>			
School funded activities	-	-	-
<b>NET REVENUE (EXPENDITURE)</b>	-	-	-
<b>NET TRANSFERS (TO)/FROM OTHER FUNDS</b>			
Transfers from/(to) Operating Fund	-	-	-
Transfer from/(to) Capital Fund	-	-	-
Transfer from/(to) Reserve Fund	-	-	-
<b>NET TRANSFERS (TO)/FROM OTHER FUNDS</b>	-	-	-
<b>CHANGE IN SCHOOL ACTIVITIES FUND BALANCE</b>	-	-	-
<b>Opening Balance - School Activities Fund</b>	-	-	-
<b>Closing Balance - School Activities Fund</b>	-	-	-



