

Western Québec School Board

Budget 2009-2010

Transition to  
General Accepted Accounting Principles

June 18, 2009

IMPACTS OF THE ACCOUNTING REFORM FOR THE EDUCATIONAL  
NETWORK AND FOR GOVERNMENT ACCOUNTING ON THE ADOPTION OF  
SCHOOL BOARD BUDGETS FOR THE 2009-2010 SCHOOL YEAR

- Up to 2007-2008, accounting standards for school boards were of limited usage. Starting in 2008-2009, they now comply to Generally Accepted Accounting Principles (GAAP) and now have a general vocation, therefore allowing school boards to compare themselves to other public bodies and to government.
- The decision to transfer accounting practices to GAAP was made jointly by the MELS and the “réseau”.
- We were aware that this change would impact school board financial results mainly because of changes dealing with amortization and the necessity to create provisions for accumulated staff vacation and sick days.
- Taking these changes into account, school boards will be reporting accumulated deficits and not accumulated surpluses.
- This situation is not a result of management of financial resources but a result of changes made to accounting standards.
- Because school boards must now include in their budgets, as revenue, any accumulated surpluses, and as an expenditure, any accumulated deficits, all boards will be reporting an accumulated deficit at June 30, 2010.
- Since boards cannot adopt a deficit budget without the Minister’s approval, they must therefore request authorization prior to adopting their 2009-2010 budget.
- Because of this accounting reform, the government must now include school boards’ results in its financial results since March 31, 2007. Because of this, it was necessary for school boards to transfer to GAAP to harmonize their standards with those of the government.
- This decision to include school boards’ results in those of the government’s has the following impacts:
  - government has assumed an accumulated deficit created by the transfer to GAAP, in the amount of 774.6 million dollars as of March 31, 2007;
  - school boards’ financial results now have a direct impact on the government’s financial situation;
  - the government has also assumed all of the impacts that this harmonization of accounting with respect to amortization has created;
- With Bill 40, the government will be providing additional sums to ensure that school boards will be able to benefit from the surpluses they had accumulated before this reform, in accordance with budgetary rules.
- The 2009-2010 budgets that school boards will be adopting shortly will show accumulated deficits, but these deficits will be undertaken by the government.

## What are the impacts following the transition to GAAP?

### 1) *Depreciation of fixed assets (buildings, fte, fiber, etc.);*

Prior to the transition, buildings and land were recorded at the municipal evaluation and were not subject to any depreciation of value unless changes in the assessed value of the property. Consequently, the value of buildings and land would be adjusted during the preparation of our financial statements following revised assessment by cities/municipalities. Now with the change to the GAAP, school boards must record the value of the buildings and land at their initial cost and are subject to depreciation according to a set period of time, i.e. construction of a new school – depreciation period is 50 years. The acquisition of the school is now recorded as an asset and is no longer recorded as an expense. However the annual depreciation of the building represents an annual expense during the amortization period. Land is not subject to any depreciation. In addition all building improvement such as major renovations and transformation are also subject to depreciation.

The same principle applies to the purchase of furniture, tools and equipment, vehicles, textbooks, library books, pedagogical material (smart board, audio visual, etc.), computers, fiber, etc... As an example, the purchase of \$56 000 of computers will be depreciated over a 3-year period at a cost of \$18 667. At the end of the period, the net worth of computers will be at 0.

### 2) *Provisions of Bank of Sick Days*

Prior to the transition, the payment of bank of sick days were recorded as an expense when they were utilized (cash-basis accounting) and the unused banks were only registered in payroll but not in finance. Consequently, with the transition to GAAP we must now create a provision for all banks of sick days (accrued basis accounting) and record the sick days as an expense and liability. The bank of sick days applies in general to teachers. Support staff bank of sick days (7) are paid out at the end of the year and/or converted up to a maximum of 3 days.

### 3) *Provisions of Bank of Holidays*

Prior to the transition, the payment of bank of holidays were not recorded given we do not replace administrative staff and professionals during holidays. Consequently, with the transition to GAAP we must now create a provision for all banks of holidays (accrued basis accounting) and record the sick days as an expense and liability. The bank of holidays applies in general to all categories of staff with the exception of teachers.

**DEPRECIATION OF FIXED ASSETS**

<i>Buildings and Improvements (35, 40 and 50 years)</i>	
(Acquisition, Improvements, Renovations, Land Improvement)	\$ 3,144,155
 <i>Equipment</i>	
FTE ( 5 years)	\$ 1,144,443
Pedagogical ( Science lab, FP, Smartboard, Audio Visual) - 5 years	\$ 69,000
Textbooks ( 5 years)	\$ 60,000
Library and documents (10 years)	\$ 13,000
 <i>Technology</i>	
Computer Equipment (3years)	\$ 165,004
Development ( 5 years)	\$ 48,000
Fiber Network ( 20 years)	\$ 138,508
 <b>PROVISIONS OF HOLIDAYS AND SICK DAYS</b>	
Bank of sick days	\$ 525,000
Bank of holidays	\$ 65,000
 <b>REIMBURSEMENT OF LONG TERM DEPT</b>	
Capital Reimbursement (only)	\$ (898,000)

