



Ministry of Education

Funding Department

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# **GAAP Implementation Transition Information**

**for**

**School Districts**

**School-Generated Funds**



**SCHOOL-GENERATED FUNDS**

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## 1. OVERVIEW

Implementation of full generally accepted accounting principles (GAAP) for British Columbia school boards is effective July 1, 2004. The principles are those set out in the *not-for-profit* model, using the deferral method as defined by the Canadian Institute of Chartered Accountants (CICA Handbook, sections 4400 to 4460).

School districts were advised in the letter dated May 8, 2003 from Keith Miller of the GAAP requirements to include school-generated funds in their financial reports commencing with the period from July 1, 2004 to June 30, 2005. If information is available, school districts may choose to report school-generated funds in their 2003/2004 financial statements.

Activities, referred to as school-generated funds, are those that originate at the school level. These may include vending machines, cafeterias, field trips, yearbook sales, school fees, graduation fees and band fees. The definition of such activities as school-generated funds is specific to practices in that school district.

Ministry staff and Accounting Advisory Committee members reviewed numerous alternatives to determine the most practical approach for reporting school-generated funds.

## 2. CICA HANDBOOK REFERENCES

Section 4450 of the CICA handbook defines controlled entities. Activities at the school level fall under this definition thus school-generated funds must be consolidated in the school district financial reports.

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### 3. ACCOUNTING PRACTICES

Please review accounting practices for schools in your district to ensure reporting requirements are adequate. It is recommended that your auditors are consulted in advance to ensure controls and reporting for school-generated funds will be adequate for issuance of an unqualified auditor's report on the financial statements package.

In preparation for reporting school-generated funds in the financial statements, the following should be considered:

- School records are sufficiently detailed to allow classification by major revenue and expenditure categories.
- Inter-fund and inter-school transactions can be identified for consolidation purposes.
- Systems are in place for identifying, recording and reporting funds collected and disbursed at the school level.
- Timing and cut off requirements are set to meet reporting timeframes.
- Audit requirements for inclusion of school-generated funds in the financial statements can be met.
- Whether school district auditors may require reporting of prior year comparative figures, if available.

### 4. TIMING AND CUT OFF CONSIDERATIONS

School staff are often away over the summer months and therefore unavailable to finalize school-generated fund transactions and balances at fiscal year end, or respond to questions. In addition, districts must prepare their quarterly reports for the consolidated books of the province for submission within two weeks after the end of each quarter. In order to collect the appropriate information, perform an adequate review and make any adjustments, earlier cut-off dates could be set. Consultation with numerous audit firms indicated that earlier cut-off dates might be acceptable by your auditors. The following should be considered:

- For 2004/05, an opening balance will be required at July 1, 2004. If this is not available it will have to be recreated by estimates at a later date.
- Depending on school district specific cut-off dates, the first year could be for less than 12 months. This is acceptable for annual Ministry and quarterly GRE reports.
- Once earlier cut-off dates are determined, the same timeframes would apply each year.
- Auditors could review the stub period to assess any material events.

## 5. ACCOUNTING TREATMENT

- (1) School-generated funds will be reported by setting up a separate fund. This presentation is included in the 2003/04 financial statements report formats. The chart of accounts in place for district records will also apply to school-generated fund reporting.
- (2) School-generated funds should generally include all funds collected at the school level including those donated for school use by a Parents' Advisory Council (PAC). PACs are separate entities thus funds held and controlled by a PAC are **not** school-generated funds and as such do not need to be reported in the school district financial statements.
- (3) School-generated funds should be identified as externally or internally restricted for use at the school level and unspent balances appropriately classified at year-end as deferred contributions or internally restricted in accordance with the CICA handbook.
- (4) Capital purchases and donations:
  - Funds received by a school, that are externally restricted for the purchase of capital assets, should **not** be recorded as a capital purchase at the school level. These are reported in the school district accounts.
  - Internally restricted school-generated funds to be used for the purchase of capital assets should be recorded as an interfund transfer to the school district capital fund. The asset will be purchased from the school district capital fund.
  - Capital donations in kind to the school should **not** be recorded at the school level. The school district records these at fair market value in the appropriate asset class and deferred capital contribution in the capital fund.
  - Materiality thresholds apply to capital asset purchases and donations in kind.

## 6. CLASSIFICATION OF INDIVIDUAL FUNDS

Each school district has numerous individual school-generated funds that will require ongoing review and identification. Based on their source and purpose these could be treated as externally or internally restricted funds. Consideration should be given to classifying all school-generated funds as externally restricted, with any unspent balances treated as deferred contributions.

Consultation with numerous audit firms indicated that it might be acceptable to consider all funds externally restricted unless this would materially misstate the reporting. This treatment will result in no impact on the fund balances. District staff is advised to discuss this treatment with their auditors at the earliest possible date.

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## 7. FINANCIAL REPORTING

The opening balance for school-generated funds must be set up as a change in accounting policy on statement 4 (Statement of Cash Flow) and as deferred contribution opening balances in the school-generated funds column on schedule B1 (Special Purpose Funds – Summary of Changes). Current year transactions are recorded on schedule B1.

If all funds are considered externally restricted, the income will be shown as “Deferred Contributions – Contributions Received” under the appropriate heading. Expenses are appropriately classified and sufficient funds allocated from deferred contributions to revenue as an offset to the expenses and interfund transfers. Unexpended funds will remain as deferred contributions.

If funds are considered both externally and internally restricted, the reporting will be as follows:

- Externally restricted funds are reported as described above.
- Internally restricted funds are reported as revenue when received and expense appropriately classified. The difference between the revenue and expense plus interfund transfers will be reported as the fund balance.
- On statement 1 (Statement of Financial Position), the fund balance will be reported as internally restricted.

## 8. SAMPLE JOURNAL ENTRIES

	<b>Financial Statements</b>	<b>Debit</b>	<b>Credit</b>
<b>PURCHASE OF CAPITAL ASSETS - INTERNALLY RESTRICTED FUNDS</b>			
<b>School-generated fund (School District Reporting)</b>			
Interfund Transfer - Capital Asset Purchases	B1	8,000	
Cash			8,000
<i>To transfer funds to the capital fund for the purchase of a new photo copier. The interfund transfer will be offset by revenue at year end close.</i>			
<b>Capital fund (School District Reporting)</b>			
Cash		8,000	
Interfund Transfer - Capital Asset Purchases	S3		8,000
<i>To record funds transferred from school-generated funds to purchase a new photo</i>			
Furniture and Equipment	C1	8,000	
Cash			8,000
<i>To record the purchase of photo copier.</i>			
Interfund Transfer - Capital Asset Purchases	S3	8,000	
Investment in Capital Assets	C4		8,000
<i>To close out Interfund Transfer to Investment in Capital Assets at year end.</i>			

<b>CAPITAL DONATIONS IN KIND</b>
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<b>School-generated fund (School District Reporting)</b>	Not recorded
<b>Capital fund (School District Reporting)</b>	
Furniture and Equipment	C1      25,000
Deferred Capital Contribution - Other	C2                      25,000
<i>To record donated playground equipment. Deferred Capital Contribution - Other will be amortized to revenue over the useful life of the asset (10 years).</i>	