

DIRECTIVE # 2004- 06

Date: December 10, 2004

The policies, procedures and service manager requirements in this Directive are to be implemented by all housing providers in the Region of Durham included under the provisions of the Social Housing Reform Act and its associated Regulations.

Please note: if the Social Housing Reform Act does not cover your housing corporation, this Directive is for information purposes only.

SUBJECT

Capital Related Exceptions to Canadian Generally Accepted Accounting Principles (GAAP) Reporting for Audited Financial Statements for Social Housing Providers in the Region of Durham

BACKGROUND

The Ministry of Municipal Affairs and Housing (MMAH) historically required housing providers to deviate from Canadian Generally Accepted Accounting Principles (GAAP) when reporting on capital assets, depreciation and capital reserves. This practice has been continued on an interim basis since the transfer of administrative responsibility to the Region. However, the new CICA handbook section 5600 (applicable for audit reports issued on or after October 1, 2003) precludes auditors from reporting on general purpose financial statements prepared on a basis other than GAAP, except where departure from GAAP has been regulated or legislated. Therefore the Region is issuing this directive to allow providers to continue to follow the traditional capital asset accounting treatments.

DIRECTION

1. Annual Audited Financial Statements of Housing Providers in the Region of Durham are to be prepared using Canadian GAAP for Not-for-Profit organizations with the exception of those principals related to capital assets held by not-for-profit organizations (CICA Handbook section 4430); and

2. In place of those Canadian GAAP regarding capital assets, housing providers in the Region of Durham are instructed to apply the following principles:
 - a) Only Capital assets reported in the Statement of Final Capital Costs (land, building and equipment) at the completion of the project's initial construction are to be recorded in the Provider's Statement of Financial Position (Balance Sheet). The total capitalized cost is not to exceed the amount of the related mortgage obtained to construct and or acquire the capital assets, with the exception of approved equity contribution. Any capital assets acquired subsequent to the date of the Statement of Final Capital Costs are to be expensed as incurred.
 - b) Annual depreciation expense for Capital Assets reported in the Statement of Revenue and Expenses is to be the amount equal to the principal repaid on the related mortgage during the reporting period. In determining the principal repaid, an accrual is to be made for the principal to be paid on the first day following the Corporation's fiscal year end.
 - c) The net book value of the land, buildings and equipment at year-end will therefore be equal to the principal balance of the related mortgage.

ACTION REQUIRED

Please inform your auditor regarding this directive and Regional requirement for treatment of capital assets and acquisition of capital assets.

If you have any questions, please contact your Senior Financial Analyst.

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