

SCHOOL DISTRICT NO. 67 (OKANAGAN SKAHA)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 AUTHORITY AND PURPOSE

The School District operates under authority of the *School Act* of British Columbia as a corporation under the name of "The Board of School Trustees of School District No. 67 (Okanagan Skaha)", and operates as "School District No. 67 (Okanagan Skaha)." A board of school trustees (Board) elected for a three-year term governs the School District. The School District provides educational programs to students enrolled in schools in the district, and is principally funded by the Province of British Columbia through the Ministry of Education.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) for not-for-profit organizations. These principles are consistent with those used in prior years except as disclosed as a change in accounting policy.

The deferral method of accounting for contributions, which includes government grants, is used. Results are reported in the operating fund, special purpose funds and capital fund. Revenues and expenses are recorded on a gross and accrual basis.

Statement 2 (Statement of Revenue and Expense), Statement 3 (Statement of Changes in Fund Balances) and Statement 4 (Statement of Cash Flows) present annual results of each fund, changes in fund balances and cash flows for the year. Statement 1 (Statement of Financial Position) presents the assets, liabilities and fund balances. Interfund transfers and loans are recognized in each fund and eliminated in the consolidated totals.

a) Fund Accounting

Fund accounting procedures recognize external restrictions on the use of contributions by governments or other granting agencies, and appropriations or other internal restrictions by the Board. While separate accounts are maintained for each fund, for financial reporting purposes, funds with similar characteristics are grouped together:

- Operating fund reports assets, liabilities, revenues and expenses for general operations.
- Special purpose funds report assets, liabilities, revenues and expenses for:
 - Contributions restricted in use by the *School Act* or Ministry of Education.
 - Contributions restricted in use by other external bodies.
 - Funds collected and used at the school level (i.e. school-generated funds).
- Capital fund reports assets, liabilities, revenues and expenses for capital. Contributions of other funds used for capital purposes are transferred to the capital fund.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Continued)

b) Capital Assets

The following criteria apply:

- Capital assets acquired or constructed are recorded at cost. Donated capital assets are recorded at their fair market value on the date of donation.
- Work-in-progress is recorded as an acquisition to the applicable asset class at substantial completion.
- Sites and buildings that no longer contribute to the ability of the district to provide services are written-down to residual value.
- Buildings that are demolished or destroyed are written-off.
- Amortization is recorded on a straight-line basis over the estimated useful life of the asset and commences the year following acquisition. Estimated useful life is as follows:

Buildings	40 years
Furniture & Equipment	10 years
Vehicles	10 years
Computer Software	5 years
Computer Hardware	5 years

c) Revenue Recognition

Unrestricted operating government grants, are recognized as revenue when received. Such grants, if contributed for a future period, are deferred and reported as deferred contributions until that future period. Other unrestricted revenue, including tuition fees and sales of services/products are reported as revenue when services are provided or products delivered.

Externally restricted contributions, grants, and donations are reported as revenue depending on the nature of restrictions imposed on the use of the funds by the contributors:

- Non-capital contributions for specific purposes are recorded as deferred contributions and recognized as revenue in the year related expenses are incurred.
- Contributions restricted for capital purposes are recorded as deferred contributions until the amount is invested in capital assets.
 - If the capital asset is a site, the amount invested is recorded as a direct increase to net assets invested in capital assets.
 - If the capital asset is not a site, the amount invested is recorded as a deferred capital contribution and amortized over the useful life of the asset. Amortization commences in the year following acquisition.
 - Donated capital assets are recorded at fair market value and treated as a deferred capital contribution.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Continued)

d) Expenditures

- Categories of Salaries
 - Principals, Vice Principals, and Directors of Instruction employed under an administrative officer contract are categorized as Principals and Vice Principals.
 - Superintendents, Assistant Superintendents, Secretary-Treasurers, Trustees and other employees excluded from union contracts are categorized as Other Professionals.

- Allocation of Costs
 - Operating expenses are reported by function, program, and object. Whenever possible, expenditures are determined by actual identification. Additional costs pertaining to specific instructional programs, such as special and aboriginal education, are allocated to these programs. All other costs are allocated to regular programs.
 - Actual salaries of personnel assigned to two or more functions or programs are allocated based on the time spent in each function and program. School-based clerical salaries are allocated to school administration and partially to other programs to which they may be assigned. Principals and Vice-Principals salaries are allocated to school administration and may be partially allocated to other programs to recognize their other responsibilities.
 - Employee benefits and allowances are allocated to the same programs, and in the same proportions, as the individual's salary.
 - Supplies and services are allocated based on actual identification of program.

e) Financial Instruments

Financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities and other current liabilities. Unless otherwise noted, it is management's opinion that the School District is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

f) Use of Estimates

Preparation of financial statements requires management to make estimates and assumptions that impact reported amounts for assets and liabilities at the date of the financial statements and revenues and expenses during the reporting periods. Significant areas requiring the use of management estimates relate to the impairment of assets, rates for amortization and estimated employee future benefits. Actual results could differ from those estimates.

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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (Continued)

g) Employee Future Benefits

Employee future benefits include benefits that may be paid to employees retiring or terminating. These costs are for benefits such as vested sick leave payouts and retiring allowances.

The School District accrues its obligations and related costs under employee future benefit plans. The future benefits cost is actuarially determined using the projected unit credit method pro-rata on service and using management's best estimate of expected salary escalation, termination and retirement rates and mortality. The discount rate used to measure obligations is based on market rates at the measurement date.

The excess of cumulative unrecognized actuarial gains (losses) over 10 percent of the accrued benefit obligation is amortized over the expected average remaining service lifetime (EARSL) of active employees covered under the plan. The EARSL for employees of the School District is 10.3.

For the purposes of determining the financial position of the plans and the employee future benefit costs, a measurement date of March 31 has been adopted for all periods subsequent to July 1, 2004.

NOTE 3 CHANGE IN ACCOUNTING POLICY

a) Employee Future Benefits

Effective July 1, 2004, school districts in the Province of British Columbia adopted *CICA Handbook* section 3461 on a retroactive basis. The estimated liability, based on October 2003 school district employee data, was determined from an actuarial study conducted by Mercer Human Resources Consulting. The following adjustment to equity on Statement 3 (Statement of Changes in Fund Balances) was made to adjust the liability to full accrual:

Employee future benefits actuarially estimated as at July 1, 2004	\$ <u>1,751,258</u>
Less: previously accrued in the financial statements	<u>439,768</u>
Accrual adjustment required as at July 1, 2004	\$ <u><u>1,311,489</u></u>

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NOTE 3 CHANGE IN ACCOUNTING POLICY (Continued)

b) Vacation Pay

Vacation pay is recorded on a full accrual basis commencing July 1, 2004. The following adjustment to equity on Statement 3 (Statement of Changes in Fund Balances) was made to adjust the liability to full accrual:

Vacation pay liability as at July 1, 2004	\$ 295,023
Less: previously accrued in the financial statements	<u>295,023</u>
Accrual adjustment required as at July 1, 2004	<u>\$ 0</u>

c) School-Generated Funds

Funds collected and used at the school level are included in these financial statements. The opening balance of \$647,438 at July 1, 2004 is reported as a deferred contribution in the School-Generated Fund column in the special purpose fund.

Contributions collected during the year are recorded as deferred contributions. These deferred contributions are recognized as revenue in the year in which the related expense is incurred.

d) Amortization of Capital Assets

Amortization of capital assets commenced July 1, 2004. The accumulated amortization as at July 1, 2004 in the amount of \$39,102,381 is reported as an adjustment to the capital fund on Statement 3 (Statement of Changes in Fund Balances).

Assets that are fully amortized, except buildings, are written-off as deemed disposals. The accumulated deemed disposal as at July 1, 2004 in the amount of \$8,784,793 is reported as an adjustment on Schedule C1 (Capital Assets – Capital Fund).

e) Reserves

The *School Act* no longer requires the use of “reserves,” thus, externally restricted capital funds are recorded in accordance with Canadian GAAP. Capital Reserve adjustment has been made in the capital fund on Statement 3 (Statement of Changes in Fund Balances) to transfer the reserve balance of \$26,797 as at July 1, 2004 to deferred contributions.

The Local Capital Reserve is now called Local Capital and remains as internally restricted in the capital fund.

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NOTE 4 CAPITAL ASSETS

	2005		2004	
	Cost, End of Year	Accumulated Amortization	Net Book Value	Net Book Value
Sites	\$ 8,118,186		\$ 8,118,186	\$ 8,118,186
Buildings	84,248,737	\$ 30,034,702	54,214,035	83,578,737
Furniture & Equipment	3,782,236	1,761,963	2,020,273	4,060,848
Vehicles	333,272	97,345	235,927	204,498
Computer Software				
Computer Hardware	390,676	252,521	138,155	613,476
	<u>\$ 96,873,107</u>	<u>\$ 32,146,531</u>	<u>\$ 64,726,576</u>	<u>\$ 96,575,745</u>

NOTE 5 EMPLOYEE FUTURE BENEFITS

The accrued benefit obligation for employee future benefits is not funded as funding is provided when the benefits are paid. Accordingly, there are no plan assets. Although no plan assets are uniquely identified, the School District has provided for the payment of these benefits. The portion of these benefits that have not been provided for is identified as Unfunded Accrued Employee Future Benefits and Vacation Pay on Statement 1 (Statement of Financial Position).

The period of amortization is equal to the expected average remaining service lifetime (EARSL) of active employees.

Reconciliation of Accrued Benefit Obligation

Accrued Benefit Obligation – Beginning of Period	\$ 1,751,258
Service Cost	137,530
Interest Cost	104,978
Benefit Payments	(69,489)
Actuarial (Gain)/Loss	(55,087)
Accrued Benefit Obligation – End of Period	<u>\$ 1,869,190</u>

Reconciliation of Funded Status at End of Fiscal Year

Accrued Benefit Obligation - End of Period	\$ 1,869,190
Market Value of Plan Assets - End of Period	0
Funded Status - Surplus/(Deficit)	(1,869,190)
Employer Contributions After Measurement Date	50,391
Unamortized Net Actuarial (Gain)/Loss	(55,087)
Accrued Benefit Asset/(Liability)	<u>\$(1,873,886)</u>

Components of Net Benefit Expense

Service Cost	\$ 137,530
Interest Cost	104,978
Amortization of Net Actuarial (Gain)/Loss	0
Net Benefit Expense (Income)	<u>\$ 242,508</u>

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NOTE 5 EMPLOYEE FUTURE BENEFITS (Continued)

The significant actuarial assumptions adopted for measuring the School District's accrued benefit obligations are:

Discount Rate – Beginning of Period	5.75%
Discount Rate – End of Period	5.50%
Salary Growth – Beginning of Period	3.25% + seniority
Salary Growth – End of Period	3.25% + seniority
EARSL	10.3

NOTE 6 EMPLOYEE PENSION PLANS

The School District and its employees contribute to the Teachers' Pension Plan and Municipal Pension Plan, jointly trustee pension plans. The boards of trustees for these plans represent plan members and employers and are responsible for the management of the pension plan including investment of the assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are defined. The Teachers' Pension Plan has about 47,000 active members from school districts, and approximately 21,000 retired members from school districts. The Municipal Plan has about 130,000 active members, of which approximately 20,000 are from school districts.

Every three years, an actuarial valuation is performed to assess the financial position of the plans and the adequacy of plan funding. The most recent valuation of the Teachers' Plan as at December 31, 2002 indicated a \$382 million unfunded liability for basic pension benefits. The next valuation will be as at December 31, 2005 with results available in 2006. The most recent valuation for the Municipal Pension Plan as at December 31, 2003 indicated an unfunded liability of \$789 million for basic pension benefits. The next valuation will be as at December 31, 2006 with results available in 2007. The actuary does not attribute portions of the unfunded liability to individual employers. The School District #67 (Okanagan Skaha) paid \$3,544,649 for employer contributions to these plans in the year ended June 30, 2005.

NOTE 7 UNFUNDED ACCRUED EMPLOYEE FUTURE BENEFITS AND VACATION PAY

Implementation of GAAP on July 1, 2004 required full accrual for employee future benefits and vacation pay. On Statement 1 (Statement of Financial Position), the resulting adjustment to equity was segregated in the Fund Balance section as Unfunded Accrued Employee Future Benefits and Vacation Pay.

The Ministry of Education provided funding to be used to reduce this unfunded liability. Once the unfunded liability is eliminated, this funding can be used at the discretion of the Board. It is planned that the unfunded liability will be eliminated next year.

Unfunded accrued employee future benefits, as at July 1, 2004	\$ <u>1,311,489</u>
Unfunded vacation pay, as at July 1, 2004	<u>0</u>
Total unfunded liability, as at July 1, 2004	\$ <u>1,311,489</u>
Reductions during the year	<u>1,022,703</u>
Unfunded liability, as at June 30, 2005	\$ <u><u>288,786</u></u>

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NOTE 8 OPERATING FUND BALANCE, END OF YEAR

Internally Restricted (appropriated) by Board for:		
Decentralized school budget surpluses	\$ 109,903	
District budget surpluses	<u>423,348</u>	
Subtotal Internally Restricted		\$ 533,251
Unrestricted Operating Surplus (Deficit)		<u>3,447</u>
Total Available for Future Operations		<u>\$ 536,698</u> =====

NOTE 9 INTERFUND TRANSFERS

Interfund transfers between the operating, special purpose and capital funds are reported on Statement 3 (Statement of Changes in Fund Balances). For the year ended June 30, 2005, transfers were as follows:

- Local Capital \$ 9,000
- One Time Grant –GAAP Implementation 397,570
- Annual Facility Grants-Work In Progress 670,000

NOTE 10 COMPARATIVE AMOUNTS

The 2004 comparative figures have not been restated for the changes in accounting policy described in Note 3.

Amortization of Deferred Capital Contributions has been moved from Statement 3 (Statement of Changes in Fund Balances) to Statement 2 (Statement of Revenue and Expense). The 2004 comparative figure related to this item has also been moved.

NOTE 11 BUDGET FIGURES

Budget figures included in the financial statements are not audited. They were approved by the Board through the adoption of an amended annual budget on February 21, 2005.

NOTE 12 ECONOMIC DEPENDENCE

Operations of the School District are dependent on continued funding from the Ministry of Education and various governmental agencies to carry out its programs. These financial statements have been prepared in accordance with Canadian GAAP for not-for-profit organizations. This contemplates continuation of the School District as a “going concern”.