okanagan college

Financial Statements

March 31, 2009

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OKANAGAN COLLEGE

Financial Statements
For the Year Ended March 31, 2009

Auditors' report

Grant Thornton LLP
200 - 1633 Ellis Street
Kelowna, BC
V1Y 2A8

T (250) 712-6800
(800) 661-4244 (Toll Free)
F (250) 712-6850
www.GrantThornton.ca

To the Board of Governors of
Okanagan College

We have audited the statement of financial position of Okanagan College as at March 31, 2009 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Okanagan College as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kelowna, BC
April 29, 2009

Grant Thornton LLP
Chartered Accountants

OKANAGAN COLLEGE
STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2009
(with comparative figures as at March 31, 2008)

	OPERATING FUND	ANCILLARY SERVICES FUND	SPECIFIC PURPOSE FUND	CAPITAL FUND	2009 TOTAL	2008 TOTAL
ASSETS						
Current Assets						
Cash	$ 19,309,933	$ -	$ -	$ -	$ 19,309,933	$ 13,799,058
Marketable securities (note 4)	6,121,891	-	-	-	6,121,891	6,234,468
Accounts receivable	2,083,492	1,061	25,969	-	2,110,522	1,685,130
Inventory (note 5)	114,183	430,206	-	-	544,389	551,107
Interfund balances	(2,929,277)	149,190	2,780,087	-	-	-
	24,700,222	580,457	2,806,056	-	28,086,735	22,269,763
Marketable securities (note 4)	1,246,475	-	-	-	1,246,475	1,782,211
Capital assets (note 6)	-	-	-	72,912,158	72,912,158	55,839,653
	25,946,697	580,457	2,806,056	72,912,158	102,245,368	79,891,627
Current liabilities						
Accounts payable and accrued liabilities	6,089,186	58,687	53,355	-	6,201,228	2,458,289
Bank debt (note 7)	-	-	-	381,533	381,533	399,156
Deferred revenues	4,721,618	39,844	9,903	-	4,771,365	4,029,562
Current portion of unfunded accrued payroll benefits (note 8)	3,460,257	-	-	-	3,460,257	3,141,030
	14,271,061	98,531	63,258	381,533	14,814,383	10,028,037
Bank debt (note 7)	-	-	-	1,110,475	1,110,475	1,172,214
Unfunded accrued payroll benefits (note 8)	8,717,414	-	-	-	8,717,414	8,819,614
Deferred contributions for capital acquisitions (note 9)	-	-	-	54,346,606	54,346,606	36,176,960
	22,988,475	98,531	63,258	55,838,614	78,988,878	56,196,825
Invested in capital assets	-	-	-	17,073,544	17,073,544	18,091,323
Unrestricted fund surplus (deficit)	(7,128,066)	481,926	-	-	(6,646,140)	(7,269,994)
Restricted fund balance	10,086,288	-	2,742,798	-	12,829,086	12,873,473
	2,958,222	481,926	2,742,798	17,073,544	23,256,490	23,694,802
	$ 25,946,697	$ 580,457	$ 2,806,056	$ 72,912,158	$ 102,245,368	$ 79,891,627

Commitments and contingencies (note 10)

Subsequent event (note 15)

Chair, Board of Governors

Chair, Finance and Audit Committee

OKANAGAN COLLEGE
STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2009
(with comparative figures for 2008)

	OPERATING FUND	ANCILLARY SERVICES FUND	SPECIFIC PURPOSE FUND	CAPITAL FUND	2009 TOTAL	2008 TOTAL
REVENUE						
Grants from Province of British Columbia	$ 50,198,606	$ -	$ -	$ -	$ 50,198,606	$ 48,401,579
Tuition fees	17,780,936	-	-	-	17,780,936	16,886,130
Contract services	6,619,463	-	1,027,048	-	7,646,511	8,174,428
Ancillary service sales	-	5,478,814	-	-	5,478,814	5,111,160
Investment income	447,796	-	2,296	-	450,092	711,699
Unrealized loss on investments	(703,954)	-	-	-	(703,954)	(531,111)
Amortization of deferred contributions for capital acquisitions (note 9)	-	-	-	1,693,296	1,693,296	1,871,935
Other	1,334,869	-	-	-	1,334,869	1,445,552
	75,677,716	5,478,814	1,029,344	1,693,296	83,879,170	82,071,372
EXPENSE						
Salaries and benefits	55,165,767	1,012,708	742,535	-	56,921,010	54,135,098
Supplies and services	16,950,309	4,100,320	943,383	-	21,994,012	20,559,010
Interest on debt	77,627	-	-	-	77,627	82,455
Amortization of capital assets	-	-	-	5,324,833	5,324,833	5,595,782
	72,193,703	5,113,028	1,685,918	5,324,833	84,317,482	80,372,345
Excess (deficiency) of revenue over expense	3,484,013	365,786	(656,574)	(3,631,537)	(438,312)	1,699,027
Fund balances (deficit) at beginning of year	3,402,891	(371,379)	2,571,967	18,091,323	23,694,802	21,995,775
Capital transfers	(2,491,015)	(11,355)	(32,025)	2,534,395	-	-
Interfund transfers	(1,437,667)	498,874	859,430	79,363	-	-
Fund balances at end of year	$ 2,958,222	$ 481,926	$ 2,742,798	$ 17,073,544	$ 23,256,490	$ 23,694,802

See accompanying notes to financial statements

OKANAGAN COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2009
(with comparative figures for 2008)

	2009	2008
OPERATING ACTIVITIES:		
Excess (deficiency) of revenue over expense (Statement 2)	$ (438,312)	$ 1,699,027
Adjust for non-cash items		
Unrealized loss on marketable securities	703,954	531,111
Amortization of deferred contributions for capital acquisitions	(1,693,296)	(1,871,935)
Amortization of capital assets	5,324,833	5,595,782
	3,897,179	5,953,985
Changes in non-cash working capital		
Accounts receivable	(425,392)	837,052
Inventory	6,718	18,651
Accounts payable and accrued liabilities	3,742,939	(951,698)
Unfunded accrued payroll benefits	217,027	752,567
Deferred revenues	741,803	(393,350)
Cash generated from operating activities	8,180,274	6,217,207
INVESTING ACTIVITIES:		
Purchase of marketable securities, net	(55,641)	(239,113)
Acquisition of capital assets	(22,397,338)	(6,500,791)
Cash used in investing activities	(22,452,979)	(6,739,904)
FINANCING ACTIVITIES:		
Deferred contribution for future capital acquisitions received (note 9)	19,862,942	5,115,677
Repayment of bank debt	(79,362)	(70,014)
Cash generated from financing activities	19,783,580	5,045,663
Increase in cash	5,510,875	4,522,966
Cash at beginning of year	13,799,058	9,276,092
Cash at end of year	$ 19,309,933	$ 13,799,058

See accompanying notes to financial statements

Okanagan College (the "College") was designated by Order in Council on November 26, 2004, and began operations July 1, 2005. The College operates under the authority of the College and Institute Act of British Columbia. The College is a not-for-profit entity and is exempt from income tax under Section 149 of the Income Tax Act.

1. Significant Accounting Policies

(a) Fund Accounting

The College follows Canadian Generally Accepted Accounting Principles for not-for-profit organizations and applies such principles consistently. The resources and operations of the College are segregated into various funds for accounting and financial reporting purposes, each being treated as a separate entity with responsibility for the stewardship of the assets allocated to it.

The Operating Fund includes revenues and expenditures related to the general instructional, administrative and other operational activities of the College. The Operating Fund holds the cash on behalf of the other funds. The Interfund balance represents each fund's portion of cash in the Operating Fund. Restricted Fund balances represent internally restricted allocations.

The Ancillary Services Fund includes revenues and expenditures relating to ancillary enterprises such as: the College bookstore, campus food services, student housing, student parking, and duplicating services.

The Specific Purpose Fund includes revenues and expenditures relating to special projects, which are undertaken by the College, and specially funded by agencies, donors, governments or appropriations from the Operating Fund. The Specific Purpose Fund balance represents the balance of externally restricted funds held pending disbursement.

The Capital Fund accounts for funds received and expended for the acquisition of capital assets.

(b) Revenue Recognition

The College follows the deferral method of accounting for contributions.

Operating contributions, including grants from the Ministry of Advanced Education, are recognized as revenue in the period when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions including capital grants from the Ministry of Advanced Education are recognized as revenue of the appropriate fund in the year in which the related expenses are incurred. Restricted contributions for the purchase of capital assets are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital assets. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Deferred contributions related to capital assets represent the unamortized and unspent amount of externally restricted contributions received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations and changes in fund balances.

Externally restricted non-capital contributions are deferred and are recognized as revenue in the period in which the related expenses are incurred. Externally restricted amounts can only be used for purposes designated by external parties.

Donations that are not externally restricted are recognized as revenue when they are received.

Revenue from academic and vocational related tuition fees is recognized as revenue in the semester in which the course or program begins. Any portion of the tuition fee revenue relating to the period subsequent to March 31 is recorded as revenue in the current period when the fees are not refundable to the students. In the event that a student is eligible for a refund, revenue is prorated and the portion eligible for a refund is deferred to the next fiscal year.

Ancillary sales are recognized when the product or service is provided to the consumer. Investment income is recognized as it accrues.

(c) Inventory

Inventory is stated at the lower of cost and net realizable value. Costs are assigned using the first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(d) Capital Assets

Capital assets are recorded at cost. Capital assets are amortized on a straight-line basis as follows:

Capital Asset Class	Years
Site Improvements	10
Buildings – Steel/Concrete	40
Buildings – Wood frame	20
Furniture and Equipment	5
Computer Equipment	5
Library Books	10
Leasehold Improvements	3

No amortization is taken on construction in progress.

(e) Use of Estimates

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) Financial Instruments

The College's financial instruments consist of cash, marketable securities, accounts receivable, accounts payable and accrued liabilities, bank debt and unfunded accrued payroll benefits. Unless otherwise noted, it is management's opinion that the College is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The College has classified its financial instruments as follows:

Cash as held for trading (measured at fair value through the statement of operations)

Marketable securities as held for trading (measured at fair value through the statement of operations)

Accounts receivable as loans and receivables (measured at amortized cost using the effective interest rate method)

Accounts payable and accrued liabilities as other financial liabilities (measured at amortized cost using the effective interest rate method)

Bank debt as other financial liabilities (measured at amortized cost using the effective interest rate method)

Unfunded accrued payroll benefits as other financial liabilities (measured at amortized cost using the effective interest rate method)

2. Recently Released Accounting Standards

(a) Capital Disclosures

Handbook Section 1535 *Capital Disclosures* requires disclosure about capital and is harmonized with recently amended IAS 1. The standard is applicable to all entities, regardless of whether they have financial instruments. Entities are required to disclose information about their objectives, policies and processes for managing capital, as well as their compliance with any externally imposed capital requirements, where they may exist. The section is effective for fiscal years beginning on or after October 1, 2007.

(b) Inventories

In June 2007, CICA issued Handbook Section 3031 *Inventories,* which replaces Section 3030 *Inventories*. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section contains guidance on the determination of cost and also requires reversal of any write-downs previously recognized should market value increase. Certain minimum disclosures are required, including the accounting policies used, carrying amounts and amounts recognized as expenses, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses. The new standard became effective on April 1, 2008 for the College. The adoption of this new section had no impact on the financial statements.

3. Future Accounting Changes

(a) Financial Statement Presentation by Not-for-profit Organizations

Handbook section 4400 *Financial Statement Presentation by Not-for-profit Organizations* has been amended for the treatment of net assets invested in capital assets and for the presentation of revenues and expenditures. The new standard is effective for the College's year end March 31, 2010. The College is currently assessing the impact of the new standard.

(b) Capital Assets Held by Not-for-profit Organizations

Section 4430 *Capital assets Held by Not-for-profit Organizations* has been amended to provide additional guidance with respect to the appropriate use of the exemption from recognizing capital assets for smaller entities. The changes are effective for the College's year end March 31, 2010. The College is currently assessing the impact of the new standard.

(c) Disclosure of Allocated Expenses by Not-for-profit Organizations

The new section 4470 *Disclosure of Allocated Expenses for Not-for-profit Organizations* establishes disclosure standards for not-for-profit organizations that choose to classify their expenditures by function and allocate expenditures from one function to another. The changes are effective for the College's year end March 31, 2010. The College is currently assessing the impact of the new standard.

4. Marketable Securities

The portfolio of marketable securities is invested through Genus Capital Management ("Genus"). The investment portfolio is held for trading and valued at fair value.

A portion of the long term investments was invested in non-bank sponsored Canadian asset backed commercial paper (“ABCP”). During the year, a restructuring of ABCP was completed and new securities named master asset vehicles (“MAV’s) were issued. These new notes have a maturity date of December, 2016, and have been classified, based on the quality of the underlying assets, as A1, A2, B, C, and ineligible notes. These new notes bear interest at the 3 month Bankers’ Acceptance Rate less 0.5%. It is expected that a market will develop and restore liquidity to these notes over time.

In March, 2009, Genus purchased from the College the lower quality MAV’s (B, C, and ineligible notes) representing approximately 16.5% of the full face value of the original ABCP.

The market value of the remaining MAV’s, have been estimated using the current market value of the underlying assets of the ABCP. The fair value has been estimated at 76.97% of the face value of the ABCP as at March 31, 2009 (2008 – 86.63%).

Genus has provided a guarantee to cover over time any losses by clients holding ABCP through funds invested by Genus. Given uncertainties related to this guarantee, no value has been applied to it or reflected in these financial statements as at March 31, 2009.

5. Inventories

Inventories recognized in the statement of financial position can be analyzed as follows:	2009	2008
Bookstore	$ 430,206	$ 406,359
Other	114,183	144,748
	$ 544,389	$ 551,107

In 2009, a total of $3,113,290 (2008 - $2,855,268) of inventories was included in the Statement of Operations and Changes in Fund Balances as an expense. This includes an amount of $nil (2008 - $7,634) resulting from write down of inventories.

None of the inventories is pledged as security for liabilities.

6. Capital Assets

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Land	$ 1,002,538	$ -	$ 1,002,538	$ 1,002,538
Site Improvements	5,618,031	4,731,134	886,897	935,444
Buildings - Steel/Concrete	64,502,517	24,033,177	40,469,340	40,950,070
Buildings - Wood Frame	2,147,382	1,437,902	709,480	816,849
Furniture and Equipment	38,133,893	34,066,046	4,067,847	4,767,702
Computer Equipment	9,871,830	9,178,130	693,700	1,331,353
Library Books	12,917,544	10,290,727	2,626,817	2,884,483
Leasehold Improvements	1,160,575	1,003,862	156,713	469,316
Construction in Progress	22,298,826	-	22,298,826	2,681,898
	$ 157,653,136	$ 84,740,978	$ 72,912,158	$ 55,839,653

7. Bank Debt

Outstanding bank debt is comprised of unsecured credit facility agreements with the Royal Bank of Canada to finance expansions at the Vernon and Salmon Arm campuses. As at March 31, the remaining obligations under these loan agreements are:

		Terms
Vernon expansion, 5.15% loan due October 3, 2012	$ 1,172,909	The loan is repayable in consecutive monthly blended payments of principal and interest of $10,063. The loan is amortized over 240 months.
Salmon Arm expansion, 4.44% loan due on August 13, 2009	319,099	The loan is repayable in consecutive monthly blended payments of principal and interest of $2,501. The loan is amortized over 180 months.
	1,492,008	
Less: current portion	(381,533)	
	$ 1,110,475	

The principal amounts to be repaid over the next four years are:

Fiscal year 2009-10	$ 381,533
Fiscal year 2010-11	65,691
Fiscal year 2011-12	69,118
Fiscal year 2012-13	975,666
	$ 1,492,008

8. Unfunded Accrued Payroll Benefits

	2009	2008
Holiday pay	$ 2,706,615	$ 2,577,470
Severance on resignation	274,983	360,215
Retirement allowance benefits	9,196,073	9,022,959
Total unfunded accrued payroll benefits	12,177,671	11,960,644
Less: current portion	(3,460,257)	(3,141,030)
Long term portion	$ 8,717,414	$ 8,819,614

The College accrues holiday pay and severance on resignation entitlements as they are earned by the employee; however, it is expected that these unfunded liabilities will be met on a continuous basis over the long term. Payments of these amounts will be funded from revenues of the period in which they are settled.

The liability for retirement allowance benefits is determined by an actuary. For 2009, the expense for these benefits is $1,037,758 (2008 - $1,204,209), made up of $738,642 (2008 - $609,600) projected service costs and $299,116 (2008 - $594,609) interest. For 2009, the projected payout for these benefits charged against this liability is $865,093 (2008 - $687,200). The College plans to do a review every three years.

9. Deferred Contributions for Capital Acquisitions

	2009	2008
Balance, beginning of year	$ 36,176,960	$ 32,933,218
Deferred contributions from:		
Ministry of Advanced Education	19,862,942	5,115,677
Deferred contributions for capital acquisitions	56,039,902	38,048,895
Less: Amounts amortized to revenue	(1,693,296)	(1,871,935)
Balance, end of year	$ 54,346,606	$ 36,176,960

10. Commitments and Contingencies

(a) The College leases, for the Penticton campus, 5.92 hectares under a long-term lease, which expires June 30, 2036, the annual payment for which is $88,105.

(b) The College has entered into various agreements and contracts with third parties for various services with periods ranging from one to four years. The combined annual costs over the next four years are estimated to be as follows:

Fiscal year 2009-10	$ 1,620,912
Fiscal year 2010-11	976,392
Fiscal year 2011-12	567,745
Fiscal year 2012-13	463,283
	$ 3,628,332

(c) The College is involved in several lawsuits. Some of these lawsuits are managed and covered by the University, College and Institute Protection Program. The outcome of these matters cannot be determined at this time. In the event that any claims are successful, it is management's opinion that the settlements of such claims would not have a material effect on the financial position of the College. The resulting loss to the College, if any, will be recorded in the period in which it is determinable.

11. Pension Plans

The college and its employees contribute to the College 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 College Pension Plan has about 11,000 active members from college senior administration and instructional staff and approximately 3,500 retired members. The Municipal Pension Plan has about 150,000 active members, with approximately 5,000 from colleges.

Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The most recent valuation for the College Pension Plan as at August 31, 2006 indicated an unfunded liability of $54 million for basic pension benefits. The next valuation will be as at August 31, 2009 with results available in 2010. The most recent valuation for the Municipal Pension Plan as at December 31, 2006 indicated a surplus of $438 million for basic pension benefits. The next valuation will be as at December 31, 2009 with results available in 2010. The actuary does not attribute portions of the unfunded liability to individual employers.

The Okanagan College paid $3,540,642 for employer contributions to the plans in fiscal 2009 (2008 - $2,951,287).

12. Related Organization

The Okanagan College Foundation (the "Foundation") is a separate entity that raises funds from the College's alumni and from the community. Its purpose is to further the goals, objectives, and strategic interests of the College, stimulate and provide financial support for the development and expansion of educational programs, services, capital projects, and other initiatives as recommended by the College, and provide financial support to enable students to participate in learning at the College and other post-secondary institutions in Canada. The College has an economic interest in relation to the Foundation. The Foundation is a registered charity with the Canada Revenue Agency and accordingly is not subject to income tax. In accordance with its constitution and bylaws, the Foundation's operations are exclusively for charitable purposes.

The Foundation's financial results have not been consolidated in the College's financial statements. Audited financial statements of the Foundation are available on request. Financial summaries of the Foundation as at March 31, 2009 and for the year then ended are as follows:

	2009	2008
Financial Position		
Total assets	$ 6,695,664	$ 7,472,121
Total liabilities	227,465	33,025
Total net assets	6,468,199	7,439,096
	6,695,664	7,472,121
Results of Operations		
Total revenues	241,074	554,485
Total expenditures	1,201,835	717,670
Deficiency of revenues over expenditures	(960,761)	(163,185)
Cash Flows		
From operating activities	406,765	362,736
From investing activities	(200,924)	58,517
Cash at beginning of the year	852,729	431,476
Cash at end of the year	$ 1,058,570	$ 852,729

Related organization transactions

Included in the College expenses is $ 239,504 (2008 - $166,019) towards Foundation support. Included in receivables is an amount due from the Foundation in the amount of $171,439 (2008 - $24,277) related to the above transactions.

During the year the College received from the Foundation grants in the amount of $22,666 (2008 - $41,914) to fund specific projects.

The College provides administrative staff and necessary supplies for the Foundation's operations. Because of the difficulty in tracking and determining their fair value, contributed services and supplies are not identified in these financial statements.

Transactions with the Foundation are recorded at the exchange amount, the amount of consideration agreed to between the organizations.

13. Capital Management

The College's objectives when managing capital are:

a. to safeguard the College's ability to operate as a going concern; and
b. to maintain a flexible capital structure.

The College's capital requirements are reviewed annually to ensure sufficient funds are available to meet operational needs.

14. Interfund Transfers

Included in interfund transfers are re-distributions of costs incurred in the Ancillary Services Fund, internal re-distribution of Operating Funds to the Specific Purpose Fund, as well as transfers of net results from some Ancillary Services Fund to the Operating Fund and transfers from the Operating Fund to the Capital Fund for repayment of debt.

15. Subsequent Event

On April 8, 2009 the Government of BC announced an investment of $28 million from the federal and provincial governments and the College to build a new Centre for Excellence in Green Building Technology at Okanagan College in Penticton. Work on the Centre for Excellence is set to begin in April, 2009. The College will contribute $5 million to this $28 million dollar project and the federal and provincial governments will cost share the balance.