



Financial Statements

March 31, 2008

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OKANAGAN COLLEGE
Financial Statements
For the Year Ended March 31, 2008

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Auditors' report

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To the Board of Governors of
Okanagan College

We have audited the statement of financial position of Okanagan College as at March 31, 2008 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Partners

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Kelowna, B.C.
April 29, 2008

Grant Thornton LLP
Chartered Accountants

Audit • Tax • Advisory

Grant Thornton LLP, A Canadian Member of Grant Thornton International Ltd

OKANAGAN COLLEGE
STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2008
(with comparative figures as at March 31, 2007)

	OPERATING FUND	ANCILLARY SERVICES FUND	SPECIFIC PURPOSE FUND	CAPITAL FUND	2008 TOTAL	2007 TOTAL
ASSETS						
Current Assets						
Cash	\$ 13,799,058	\$ -	\$ -	\$ -	\$ 13,799,058	\$ 9,276,092
Marketable securities (note 3)	6,234,468	-	-	-	6,234,468	8,297,169
Accounts receivable	1,644,623	20,746	19,761	-	1,685,130	2,522,182
Inventory	144,749	406,358	-	-	551,107	569,758
Interfund balances	(1,931,233)	(695,982)	2,627,215	-	-	-
	19,891,665	(268,878)	2,646,976	-	22,269,763	20,665,201
Marketable securities (note 3)	1,782,211	-	-	-	1,782,211	-
Capital assets (note 4)	-	-	-	55,839,653	55,839,653	54,934,644
	21,673,876	(268,878)	2,646,976	55,839,653	79,891,627	75,599,845
LIABILITIES AND FUND BALANCES						
Current liabilities						
Accounts payable and accrued liabilities	2,394,854	23,451	39,984	-	2,458,289	3,409,987
Bank debt (note 5)	-	-	-	399,156	399,156	1,300,937
Deferred revenues	3,915,487	79,050	35,025	-	4,029,562	4,422,912
Current portion of unfunded accrued payroll benefits (note 6)	3,141,030	-	-	-	3,141,030	2,730,248
	9,451,371	102,501	75,009	399,156	10,028,037	11,864,084
Bank debt (note 5)	-	-	-	1,172,214	1,172,214	340,447
Unfunded accrued payroll benefits (note 6)	8,819,614	-	-	-	8,819,614	8,477,829
Deferred contributions for capital acquisitions (note 7)	-	-	-	36,176,960	36,176,960	32,933,218
	18,270,985	102,501	75,009	37,748,330	56,196,825	53,615,578
Invested in capital assets	-	-	-	18,091,323	18,091,323	20,360,042
Unrestricted fund deficit	(6,898,615)	(371,379)	-	-	(7,269,994)	(8,752,549)
Restricted fund balance	10,301,506	-	2,571,967	-	12,873,473	10,376,774
	3,402,891	(371,379)	2,571,967	18,091,323	23,694,802	21,984,267
	\$ 21,673,876	\$ (268,878)	\$ 2,646,976	\$ 55,839,653	\$ 79,891,627	\$ 75,599,845

Commitments and contingencies (note 8)


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, 2008
(with comparative figures for 2007)

	OPERATING FUND	ANCILLARY SERVICES FUND	SPECIFIC PURPOSE FUND	CAPITAL FUND	2008 TOTAL	2007 TOTAL
REVENUE						
Grants from Province of British Columbia	\$ 48,401,579	\$ -	\$ -	\$ -	\$ 48,401,579	\$ 44,954,820
Tuition fees	16,886,130	-	-	-	16,886,130	16,035,948
Contract services	7,304,971	-	869,457	-	8,174,428	8,583,957
Ancillary service sales	-	5,111,160	-	-	5,111,160	4,739,073
Investment income	707,723	-	3,976	-	711,699	797,359
Unrealized loss on investments	(531,111)	-	-	-	(531,111)	-
Amortization of deferred contributions for capital acquisitions (note 7)	-	-	-	1,871,935	1,871,935	2,329,897
Other	1,445,552	-	-	-	1,445,552	3,482,950
	<u>74,214,844</u>	<u>5,111,160</u>	<u>873,433</u>	<u>1,871,935</u>	<u>82,071,372</u>	<u>80,924,004</u>
EXPENSE						
Salaries and benefits	52,798,304	992,654	344,140	-	54,135,098	51,320,511
Supplies and services	15,701,787	4,028,736	828,487	-	20,559,010	18,318,747
Interest on debt	82,455	-	-	-	82,455	99,080
Amortization of capital assets	-	-	-	5,595,782	5,595,782	5,376,277
	<u>68,582,546</u>	<u>5,021,390</u>	<u>1,172,627</u>	<u>5,595,782</u>	<u>80,372,345</u>	<u>75,114,615</u>
Excess (deficiency) of revenue over expense before other item	5,632,298	89,770	(299,194)	(3,723,847)	1,699,027	5,809,389
Adjustment to unfunded accrued payroll benefits	-	-	-	-	-	2,511,245
Adjusted excess (deficiency) of revenue over expense for the year	5,632,298	89,770	(299,194)	(3,723,847)	1,699,027	8,320,634
Fund balances (deficit) at beginning of year	801,832	(1,198,182)	2,020,575	20,360,042	21,984,267	13,564,639
Adjustment for change in accounting policy (note 2)	11,508	-	-	-	11,508	-
Capital transfers	(1,224,185)	(105,513)	(55,414)	1,385,112	-	-
Interfund transfers	(1,818,562)	842,546	906,000	70,016	-	-
Transfers to other entities	-	-	-	-	-	(80,737)
Transfers from Okanagan University College	-	-	-	-	-	179,731
Fund balances (deficit) at end of year	<u>\$ 3,402,891</u>	<u>\$ (371,379)</u>	<u>\$ 2,571,967</u>	<u>\$ 18,091,323</u>	<u>\$ 23,694,802</u>	<u>\$ 21,984,267</u>

OKANAGAN COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2008
(with comparative figures for 2007)

	2008	2007
OPERATING ACTIVITIES:		
Excess of revenue over expense (Statement 2)	\$ 1,699,027	\$ 8,320,634
Adjust for non-cash items		
Gain on sale of investments	-	(77,465)
Unrealized loss (gain) on marketable securities	531,111	-
Amortization of deferred contributions for capital acquisitions	(1,871,935)	(2,329,897)
Amortization of capital assets	5,595,782	5,376,277
	<u>5,953,985</u>	<u>11,289,549</u>
Changes in non-cash working capital		
Accounts receivable	837,052	866,066
Inventory	18,651	(94,202)
Accounts payable and accrued liabilities	(951,698)	131,536
Unfunded accrued payroll benefits	752,567	(1,797,103)
Deferred revenues	(393,350)	(371,155)
Cash generated from operating activities	<u>6,217,207</u>	<u>10,024,691</u>
INVESTING ACTIVITIES:		
Purchase of marketable securities, net	(239,113)	(8,219,704)
Acquisition of capital assets	(6,500,791)	(7,853,090)
Cash used in investing activities	<u>(6,739,904)</u>	<u>(16,072,794)</u>
FINANCING ACTIVITIES:		
Deferred contribution for future capital acquisitions received (note 7)	5,115,677	25,485
Repayment of bank debt	(70,014)	(65,846)
Cash generated from financing activities	<u>5,045,663</u>	<u>(40,361)</u>
Increase (decrease) in cash	4,522,966	(6,088,464)
Cash at beginning of year	9,276,092	8,152,973
Transfers to other entities	-	(80,737)
Transfers from Okanagan University College	-	7,292,320
Cash at end of year	<u>\$ 13,799,058</u>	<u>\$ 9,276,092</u>

See accompanying notes to financial statements

OKANAGAN COLLEGE
Notes to Financial Statements
For the Year Ended March 31, 2008

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.

OKANAGAN COLLEGE
Notes to Financial Statements
For the Year Ended March 31, 2008

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, which are not externally restricted, are recognized as revenue when they are received.

Revenue from academic and vocational related tuition fees are 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 new fiscal year.

(c) Inventory

Bookstore inventory is recorded at the lower of cost, determined principally on a first-in, first-out basis, and net realizable value. Supplies inventory is recorded at cost.

(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.

OKANAGAN COLLEGE
Notes to Financial Statements
For the Year Ended March 31, 2008

(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. Specific areas requiring management estimates include the expected useful life of capital assets and the related amortization of the capital assets and deferred capital contributions, as well as the valuation of accounts receivable, certain marketable securities, and accrued payroll benefits. 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 classification of financial instruments is described in Note 2, change in accounting policy.

2. Change in Accounting Policy

The Canadian Institute of Chartered Accountants has issued CICA Handbook Sections 3855, "Financial Instruments – Recognition and Measurement" and 3861, "Financial Instruments – Disclosure and Presentation". The provisions in these Sections have been adopted by the College on April 1, 2007.

In accordance with the provisions in the CICA Handbook Sections, the College has classified their 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)

Fair values are based on quoted market values where available from active markets, otherwise fair values are estimated using a variety of valuation techniques and models.

The adoption of these new standards resulted in a transitional adjustment to increase opening net assets by \$11,508 due to an increase in the fair value of marketable securities.

OKANAGAN COLLEGE
Notes to Financial Statements
For the Year Ended March 31, 2008

3. 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.

The long term portion of the investment portfolio is invested in non-bank sponsored Canadian asset backed commercial paper ("ABCP"). During the period Genus invested the Colleges funds in the ABCP they were rated R-1 (High) by DBRS Limited, which had assigned them the highest credit rating for commercial paper and backed by R-1 (High) rated assets and liquidity agreements.

Following the August, 2007 disruption within the Canadian markets that culminated in a system-wide freeze of trading and pricing of the ABCP with the Montreal Accord, these securities remain illiquid at March 31, 2008 and accordingly are classified as long term. At March 31, 2008 the ABCP is considered impaired, given the absence of any definitive conclusion rendered by the capital markets on the status of these assets and other related information.

In the absence of an actively quoted market, Genus has estimated the fair value of the ABCP securities by employing valuation methods that examine prices for comparable assets and the change in comparable spreads on comparable assets assuming a five year duration. The fair value of the ABCP has been estimated at 86.63% of the face value as at March 31, 2008.

Continued uncertainty regarding the asset values underlying the ABCP, the timing of the cash flows and the outcome of the restructuring activities envisaged by the Montreal Accord may result in material revisions to the Genus estimates.

Genus has provided a guarantee to cover any losses on ABCP by clients whose investment funds they continue to manage. This guarantee is funded by separate "trust accounts" established by Genus and funded annually by cash contributions equal to the lesser of 5% of the principal amount of the ABCP or the difference between fair value and the principal amount of the total funds invested in ABCP managed 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, 2008.

4. Capital Assets

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2008 Net Book Value</u>	<u>2007 Net Book Value</u>
Land	\$ 1,002,538	\$ -	\$ 1,002,538	\$ 885,273
Site Improvements	5,455,125	4,519,681	935,444	978,623
Buildings - Steel/Concrete	63,384,657	22,434,587	40,950,070	39,973,414
Buildings - Wood Frame	2,147,382	1,330,533	816,849	924,218
Furniture and Equipment	36,958,658	32,190,956	4,767,702	5,521,504
Computer Equipment	9,842,923	8,511,570	1,331,353	2,155,169
Library Books	12,622,042	9,737,559	2,884,483	3,116,114
Leasehold Improvements	1,160,575	691,259	469,316	724,789
Construction in Progress	2,681,898	-	2,681,898	655,540
	<u>\$ 135,255,798</u>	<u>\$ 79,416,145</u>	<u>\$ 55,839,653</u>	<u>\$ 54,934,644</u>

OKANAGAN COLLEGE
Notes to Financial Statements
For the Year Ended March 31, 2008

5. 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, 5.15% loan due October 3, 2012	\$ 1,231,587	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, 5.08% loan due August 13, 2008	339,783	The loan is repayable in consecutive monthly blended payments of principal and interest of \$2,670. The loan is amortized over 240 months.
	<u>1,571,370</u>	
Less: current portion	<u>(399,156)</u>	
	<u>\$ 1,172,214</u>	

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

Fiscal year 2008-09	\$ 399,156
Fiscal year 2009-10	62,470
Fiscal year 2010-11	65,729
Fiscal year 2011-12	69,158
Fiscal year 2012-13	<u>974,857</u>
	<u>\$ 1,571,370</u>

6. Unfunded Accrued Payroll Benefits

	2008	2007
Holiday pay	\$ 2,577,470	\$ 2,257,799
Severance on resignation	360,215	444,278
Retirement allowance benefits	<u>9,022,959</u>	<u>8,506,000</u>
Total unfunded accrued payroll benefits	11,960,644	11,208,077
Less: current portion	<u>(3,141,030)</u>	<u>(2,730,248)</u>
Long term portion	<u>\$ 8,819,614</u>	<u>\$ 8,477,829</u>

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 2008, the expense for these benefits is \$1,204,209, made up of \$609,600 projected service costs and \$594,609 interest. For 2007, the projected payout for these benefits charged against this liability is \$687,200. The College plans to do a review every three years.

OKANAGAN COLLEGE
Notes to Financial Statements
For the Year Ended March 31, 2008

7. Deferred Contributions for Capital Acquisitions

	2008	2007
Balance, beginning of year	\$ 32,933,218	\$ 35,237,630
Deferred contributions from:		
Ministry of Advanced Education	5,115,677	-
Specific purpose funds	-	25,485
Deferred contributions for capital acquisitions	38,048,895	35,263,115
Less: Amounts amortized to revenue	(1,871,935)	(2,329,897)
Balance, end of year	\$ 36,176,960	\$ 32,933,218

8. 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 as follows:

Fiscal year 2008-09	\$ 1,477,243
Fiscal year 2009-10	711,278
Fiscal year 2010-11	159,280
Fiscal year 2011-12	10,545
	\$ 2,358,346

(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.

9. 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 138,000 active members, with approximately 6,100 from colleges.

OKANAGAN COLLEGE
Notes to Financial Statements
For the Year Ended March 31, 2008

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 most recent valuation for the Municipal Pension Plan as at December 31, 2006 indicated a surplus of \$438 million for basic pension benefits. The actuary does not attribute portions of the surplus or unfunded liability to individual employers.

The Okanagan College paid \$2,951,287 for employer contributions to the plans in fiscal 2008 (2007 - \$2,728,847).

10. 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, 2008 and for the year then ended are as follows:

	2008	2007
Financial Position		
Total assets	\$ 7,472,121	\$ 7,316,914
Total liabilities	33,025	150
Total net assets	7,439,096	7,316,764
Total liabilities and net assets	\$ 7,472,121	\$ 7,316,914
Results of Operations		
Total revenues	\$ 367,971	\$ 1,107,967
Total expenditures	717,670	542,080
(Deficiency) excess of revenues over expenditures	(349,699)	\$ 565,887
Cash Flows		
From operating activities	\$ 177,013	\$ 258,946
From investing activities	244,240	(158,798)
Cash at beginning of the year	431,476	331,328
Cash at end of the year	\$ 852,729	\$ 431,476

OKANAGAN COLLEGE
Notes to Financial Statements
For the Year Ended March 31, 2008

Related organization transactions

Included in the College expenses is \$166,019 (2007 - \$180,925) towards Foundation support, this includes \$21,288 of lease payments for the Salmon Arm Trades building.

During the year the College received from the Foundation grants in the amount of \$41,914 (2007 - \$54,136) to fund specific projects.

During the year, the College purchased property from the Foundation in the amount of \$670,087, which was the estimated fair value at the time of purchase.

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.

11. 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 Funds, 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.

12. Comparative Figures

Certain comparative figures have been restated to conform with the current year's presentation.