

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements

Year ended June 30, 2007

1. Nature of organization and economic dependence:

Seven Oaks School Division (the Division) is a public corporate body that provides educational programming to residents within its geographic location. The Division is funded mainly by grants from the Province of Manitoba (the Province), and a special levy on the property assessment included in the Division's boundaries. The Division is exempt from income tax and is a registered charity under the *Income Tax Act*.

The Division is economically dependent on the Province for the majority of its revenue and capital financing requirements. Without this funding, the Division would not be able to continue its operations.

2. Comparative figures:

These consolidated financial statements are prepared by management in accordance with generally accepted accounting principles established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The standards have been applied retroactively with a cumulative adjustment to the opening accumulated surplus presented as a restatement on the consolidated statements of revenue, expenses and accumulated surplus. The 2006 figures have not been restated and are presented in accordance with FRAME, the prescribed method of accounting that the Division followed prior to the implementation of PSAB. Changes implemented to comply with PSAB standards are listed in note 4.

3. Significant accounting policies.

The significant accounting policies of the Division include:

(a) Reporting entity and consolidation:

The Division's reporting entities are comprised of the Division and school generated funds.

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures of the Division's Operating Fund, Capital Fund, and Special Purpose Fund of the Division.

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements (continued)

Year ended June 30, 2007

3. Significant accounting principles (continued).

(b) Trust funds:

The Division administers various trust funds. Trust funds and their related operations are not included in the consolidated financial statements as they are not owned or controlled by the Division.

The Division holds funds in trust (amounts contributed in trust) for the following organizations:

Maples Youth Activity Centre	\$ (6,952)
Kildonan Youth Activity Centre	(1,751)
Village Project Activity Centre	39,526
Seven Oaks Parents in Support of Aboriginal Education	(224,435)
Safe Youth Program - from Federal Government Grant	37,743
Immigrant Integration program	(4,871)
Healthy Baby	8,012
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	\$ (152,728)

The amounts contributed by the Division will be reimbursed by these organizations.

(c) Basis of accounting:

Revenues and expenditures are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they are earned and measurable; expenditures are recognized as they are incurred and measurable as a result of the receipt of goods and services acquired in the period whether or not payment has been made or invoices received.

(d) Fund accounting:

The Division records financial transactions in separate funds as defined by Financial Reporting and Accounting in Manitoba Education (FRAME).

The Operating Fund is maintained to record all the day to day operating revenues and expenditures. The Capital Fund is used to account for the acquisition, amortization, disposal and financing of capital assets. The Special Purpose Fund is used to account for school generated funds controlled by the Division.

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements (continued)

Year ended June 30, 2007

3. Significant accounting principles (continued).

(e) Deferred revenue:

Certain amounts are received pursuant to legislation, regulation or agreement and may only be used in the conduct of certain programs or in the delivery of specific services and transactions. These amounts are recognized as revenue in the fiscal year the related expenditures are incurred or services performed.

(f) Tangible capital assets:

Tangible capital assets are non-financial assets that are used by the Division to provide services to the public and have an economic life beyond one fiscal year. Tangible capital assets include land, buildings, buses, other vehicles, furniture and equipment, computers, capital leases, leasehold improvements, and assets under construction.

To be classified as tangible capital assets, each asset other than land must individually meet the capitalization threshold for its class as prescribed by FRAME.

Asset description	Capitalization threshold	Estimated useful life (years)
Land improvements	\$ 25,000	10
Buildings - bricks, mortar and steel	25,000	40
Building - wood frame	25,000	25
School buses	20,000	10
Vehicles	10,000	5
Equipment	5,000	5
Network infrastructure	25,000	10
Computer hardware, services and peripherals	5,000	4
Computer software	10,000	4
Furniture and fixtures	5,000	10
Leasehold improvements	25,000	Over term of the lease

With the exception of buildings all tangible capital assets are recorded at historical cost.

Buildings are recorded at historical cost when known. For buildings acquired prior to June 30, 2005 where the actual cost was not known, the replacement value for insurance purposes as at June 30, 2005 was regressed to the date of acquisition using a regression index based on Southam and CanaData construction cost indices. As a result, land valued at historical cost has been restated by \$7,667,854.

Tangible capital assets are amortized on a straight-line basis over their estimated useful lives as prescribed by FRAME. Land is not amortized.

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements (continued)

Year ended June 30, 2007

3. Significant accounting principles (continued).

Assets under construction are not amortized until the date of substantial completion. Interest on funds used to finance school buildings under construction is capitalized for the periods preceding the date of substantial completion.

Capital expenditures for the Swinford Park subdivision land development have been allocated on the basis disclosed in note 15.

(g) Capital reserve:

Certain amounts approved by the Board of Trustees and the Public Schools Finance Board have been set aside in reserve accounts for future capital purposes as detailed on page 24 of the consolidated financial statements. These capital reserve accounts are internally restricted funds that form part of the accumulated surplus presented in the consolidated statement of financial position.

(h) Government transfers:

Government transfers, including legislative grants, are recognized in the consolidated financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amount can be made.

(i) Development revenue:

Revenue from the sale of lands held for development is recognized when the contractual obligations of the Division have been completed.

(j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements (continued)

Year ended June 30, 2007

4. Conversion to PSAB:

Commencing with the 2006/07 fiscal year, school divisions in Manitoba have adopted generally accepted accounting principles established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. As explained in note 2 the comparative figures included in these consolidated financial statements have not been restated to conform to the accounting standards adopted for the current year.

The following changes have been implemented to comply with the PSAB standards:

- (i) The net book value of tangible capital assets at the beginning of the fiscal year has been recalculated as if these assets had been recorded at fair value and amortized over their useful lives. The difference between this value and the previously reported book value is recorded as a cumulative adjustment to opening accumulated surplus. Amortization of tangible capital assets and gain or loss on disposal of tangible capital assets for the current fiscal year is recorded in the statement of revenue, expenses and accumulated surplus. As a result, opening accumulated surplus has been restated and reduced by \$30,736,647, included in which is an increase in land in the amount of \$7,667,854.
- (ii) The Operating Fund, Capital Fund and Special Purpose Fund have been combined in the consolidated financial statements. The Special Purpose Fund was created to consolidate on a prospective basis school generated funds (note 8) which were not previously reported. As a result, opening accumulated surplus has been restated and increased by \$110,205. As well, opening accumulated surplus has been restated and reduced by \$718,423 to reflect adjustment to the bus lease liability and donated tangible capital assets.
- (iii) In the current fiscal year, accrued interest payable was recorded on debenture debt and other borrowings from the last payment date. An equal amount is set up as due from the Province to offset the accrued interest payable.

5. Overdraft:

The Division has an authorized revolving line of credit with the Royal Bank of Canada (RBC) of \$15,000,000 by way of overdrafts. The loan is repayable on demand at RBC prime less .25 percent. Interest is paid monthly.

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements (continued)

Year ended June 30, 2007

6. Commitments:

- (a) During the year ended June 30, 2005, the Division entered into a Design-Bid-Build contract with a firm to provide architect services in relation to the construction of a new high school in the Seven Oaks School Division. The architect costs will be based on 7 percent of construction costs plus certain out of pocket costs. At June 30, 2007, the architects had completed 87.5 percent of their work related to the new high school and invoiced the Division in the amount of \$962,449.
- (b) The Division entered into a Land Development Agreement with the City of Winnipeg in September 2003. The development agreement was for the amount of \$725,329 excluding GST. Of those costs, \$259,689 relate to the future school site and will not be incurred until a school is constructed.
- (c) At their August 16, 2006 meeting the Public Schools' Finance Board approved the contract for the construction of the new West Kildonan High School. The total project costs, excluding land purchases, will be \$17,580,349 of which the Public Schools' Finance Board is supporting \$15,687,881 and the Division is supporting \$1,892,468. The construction of the new high school commenced on September 18, 2006. On August 29, 2006 a construction contract in the amount of \$15,713,450 was awarded in respect of the project. At June 30, 2007 the contractors had completed 55 percent of the project and invoiced the Division in the amount of \$8,691,909.
- (d) The Division is committed to the construction of a nature pond and incurred costs to date of approximately \$22,568. An amount of \$17,500 has been accrued at June 30, 2007 for estimated costs to complete the pond. Of the amounts recorded, \$32,054 relates to the residential development and \$8,014 to the school site.

7. Deferred revenue:

	Balance, June 30, 2006	Additions in the period	Revenue recognized in the period	Balance, June 30, 2007
Education property tax credit	\$ 2,633,264	\$ 8,414,038	\$ 7,678,992	\$ 3,368,310
Community school partnership initiative	—	45,000	10,011	34,989
Bus pass fees	59,063	284,588	297,408	46,243
Other special purpose funds	600	184,113	97,349	87,364
	\$ 2,692,927	\$ 8,927,739	\$ 8,083,760	\$ 3,536,906

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements (continued)

Year ended June 30, 2007

8. School generated funds liability:

School generated funds are moneys raised by the school, or under the auspices of the school, which each school's principal may raise, hold, administer or expend subject to the rules of the Division. At June 30, 2007, school funds held totaled \$744,246.

The school generated funds liability of \$593,764 at June 30, 2007 comprises the non-controlled portion of school generated funds.

9. Debenture debt:

The debenture debt of the Division is in the form of twenty-year debentures payable, principal and interest, in twenty equal yearly installments and maturing at various dates from 2007 to 2027. Payment of principal and interest is funded entirely by grants from the Province of Manitoba. The debentures carry interest rates that range from 5.0 percent to 11.625 percent. The debenture principal and interest repayments in the next five years and thereafter are:

	Principal	Interest	Total
2008	\$ 1,826,780	\$ 1,536,384	\$ 3,363,164
2009	1,991,728	1,371,433	3,363,161
2010	1,811,898	1,190,800	3,002,698
2011	1,575,478	1,033,031	2,608,509
2012	1,645,132	902,776	2,547,908
Thereafter	12,228,014	4,594,354	16,822,368
	<u>\$ 21,079,030</u>	<u>\$ 10,628,778</u>	<u>\$ 31,707,808</u>

As June 30, 2007 the Division has submitted claims for capital projects to the Public Schools Finance Board totaling \$4,491,000 (2006 - \$931,700).

10. Net tangible capital assets:

The schedule of tangible capital assets (TCA), page 23 of the consolidated financial statements provides a breakdown of cost, accumulated amortization and net book value by class

	Gross amount	Accumulated amortization	Net book value
Tangible capital assets	\$ 78,923,349	\$ 30,501,526	\$ 48,421,823
Capital lease	1,815,353	696,931	1,118,422
	<u>\$ 80,738,702</u>	<u>\$ 31,198,457</u>	<u>\$ 49,540,245</u>

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements (continued)

Year ended June 30, 2007

11. Expense by object:

Expenses in the consolidated statement of revenue, expenses and accumulated surplus are reported by function as defined by FRAME. Below is the detail of expenses by object:

	Actual 2007	Budget 2007 (Unaudited)	Actual 2006
Salaries	\$ 58,099,947	\$ 57,689,405	\$ 55,433,824
Employees benefits and allowances	5,226,347	5,246,997	4,632,867
Services	5,660,891	5,569,760	5,213,983
Supplies, materials and minor equipment	3,845,488	4,266,417	3,790,748
Interest	1,659,229	100,000	1,773,152
Payroll tax	1,245,947	1,237,928	1,229,592
Amortization	1,737,834	—	—
Transfers to school divisions and other organizations	1,033,434	1,032,505	983,606
School generated funds	139,208	—	—
Other capital items	308,263	1,042,005	135,949
	<u>\$ 78,956,588</u>	<u>\$ 76,185,017</u>	<u>\$ 73,193,721</u>

Budgeted figures are presented in accordance with FRAME, the prescribed method of accounting that the Division followed prior to the implementation of PSAB.

12. Contractual obligations:

The Division is committed to payments under long-term capital lease arrangements for buses through 2014 in the amount of \$896,980.

2008	\$ 162,014
2009	162,014
2010	162,014
2011	122,367
2012	122,366
2013	122,366
2014	43,839
	<u>\$ 896,980</u>

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements (continued)

Year ended June 30, 2007

13. Related party transactions:

The Seven Oaks Education Foundation Inc. (the Foundation) was incorporated on July 17, 2001 to take over the capital and administration of the Seven Oaks Scholarship Board (the Board). The Board had previously been established to assist students to further their education beyond the high school level. Certain trustees of the Division sit on the Foundation's Board.

During fiscal 2007, the Division provided a grant to the Foundation in the amount of \$16,000 (2006 - \$16,000) to the Board.

14. Contingencies:

The Division has under its development agreement with the City of Winnipeg guarantees for material and workmanship of city infrastructure services for a period of one year or until all deficiencies are corrected, which ever is later, for underground and street works under the land development construction contract. The School Division's guarantees are supported by a bond from the construction companies to repaid and or replace any works that are determined to be defective as a consequence of material or workmanship. Deficiencies in Phase I and II are still being corrected. As soon as these are accepted as complete the bond relating to these works will be released.

15. Land:

	Swinford Park Subdivision			Other	Total
	School site	Residential land Development			
		Phase I	Phase II		
Land, June 30, 2005	\$ 777,553	\$ —	\$ 458,287	\$ 2,618,225	\$ 3,854,065
Additions in fiscal 2006	42,421	15,702	172,945	647,821	863,187
Dispositions in fiscal 2006 (note 16)	—	(15,702)	(615,530)	—	(631,232)
Land, June 30, 2006	819,974	—	—	3,266,046	4,086,020
Additions in fiscal 2007	16,406	71,196	39,807	678,167	805,576
Adjustment in fiscal 2007	—	(71,196)	(39,807)	—	(111,003)
Restatement (note 4 [i])	—	—	—	7,667,854	7,667,854
Land, June 30, 2007	\$ 836,380	\$ —	\$ —	\$ 11,612,067	\$ 12,448,447

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements (continued)

Year ended June 30, 2007

15. Land (continued):

In 2001 the Division acquired 22.5 acres of land, in the Riverbend area, at a cost of \$433,436. The land was intended to be the site of a new high school that would replace the existing West Kildonan Collegiate. Upon receiving direction from the Public School Finance Board to renovate, rather than replace, the West Kildonan Collegiate, the Division retained 10.6 acres of the land for a future K-5 school. The balance of the land was developed under a Land Development Agreement with the City of Winnipeg and 71 lots were developed for resale. Swinford Park Subdivision Phase I costs of \$1,370,719 were incurred in the years ending 2006 and Phase II costs totaling \$815,530 were incurred in the year ending 2006. The portion of the land acquisition and servicing costs allocated to the future K-5 school site amounted to \$777,553 to June 30, 2005 and \$42,421 was allocated in fiscal 2006.

In fiscal 2007, additional costs of \$127,409 related to Swinford Park Subdivision representing landscaping, infrastructure repair and professional fees were incurred and allocated between the school site (\$16,406) and residential land development (\$111,003). As all lots were sold prior to fiscal 2007, as disclosed in note 16, the costs allocated to the residential development were recorded as a reduction to capital fund surplus.

Phase I of Swinford Park Subdivision was completed in fiscal 2005 and Phase II was completed in fiscal 2006.

Since many of the costs incurred regarding the Swinford Park Subdivision were common to both the future school site and the residential development and not specifically allocated to either project segment by the respective service providers, the allocation between future school site and residential development required the use of estimates and assumptions which were made using careful judgment.

Management of the Division reviewed all of the expenditures that related to the residential development and to the future school site, in order to determine the allocation for certain costs that related to both the residential development and the future school site. Management requested that the project consultant, a third party consulting firm, prepare a report to the Division specifying an appropriate basis for cost allocation given the nature of the expenditures incurred.

The basis of the allocation as determined by the project consultant, and resultantly the Division, in allocating the expenditures between the residential development and future school site was as follows:

- Specific expenditures identified as part of development approvals, development agreement or service infrastructure required by a planned use were allocated to the development segment (residential development and future school site) benefiting from that use;

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements (continued)

Year ended June 30, 2007

15. Land (continued):

- The cost of land acquisitions was allocated based on the pro rated share of the area being utilized by the respective development segment.
- Shared servicing expenses for municipal services were allocated on the basis of the benefiting frontage;
- Shared servicing expenses for municipal service connections were allocated on the basis of the benefiting area;
- Soft service expenses were not specifically apportioned by the respective service providers. Professional fees were allocated 80 percent to the residential development and 20 percent to the future school site reflecting the detailed attention this segment of the project required from the service providers.

16. Residential lot sales:

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Total
Swinford Park Subdivision:				
Lot proceeds:				
Phase I - 51 lots sold including lot transfer fees	\$ 1,768,794	\$ -	\$ -	\$ 1,768,794
Phase II - 20 lots sold including lot transfer fees	-	717,034	-	717,034
	1,768,794	717,034	-	2,485,828
Cost of lots sold:				
Phase I - costs allocated to 51 lots (note 15)	1,355,017	15,702	71,196	1,441,915
Phase II - costs allocated to 20 lots (note 15)	-	615,530	39,807	655,337
	1,355,017	631,232	111,003	2,097,252
Net surplus	\$ 413,777	\$ 85,802	\$ (111,003)	\$ 388,576

The Division entered into three lot sale agreements to sell a total of 71 residential lots in the Swinford Park Subdivision for proceeds of \$2,471,628 plus \$14,200 in lot transfer fees, to two firms.

In a letter dated March 12, 2003 from the Public Schools' Finance Board, the Division was authorized to sell surplus land in the Swinford Park Subdivision and retain 100 percent of the net proceeds, as the Division paid for the land and has borne all associated development expenditures and received no financial assistance from the Public Schools' Finance Board.

SEVEN OAKS SCHOOL DIVISION

Notes to Consolidated Financial Statements (continued)

Year ended June 30, 2007

17. Interest paid:

Interest paid during the fiscal year is comprised of the following:

Operating Fund:	
Overdraft interest	\$ 115,941
Capital Fund:	
Debenture debt interest	1,417,478
Debenture interest	46,348
Lease interest	79,462
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	\$ 1,659,229
