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AUDITORS' REPORT

To the Board of Trustees of the
Lambton Kent District School Board

We have audited the consolidated statement of financial position of the Lambton Kent District School Board as at August 31, 2004 and the consolidated statements of financial activities and changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, 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 misstatement. 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.

Canadian generally accepted accounting principles require that school generated funds be included in the financial statements. As disclosed in Note 3, the Ministry of Education has indicated that they do not require school generated funds to be included in the financial statements until the 2004 - 2005 fiscal year and, accordingly, management has advised us that they have not quantified the balances and activities of the school generated funds for the current year. As a result, we have been unable to obtain sufficient audit evidence to form an opinion with respect to the possible amount of the balances and activities of school generated funds.

In our opinion, except that school generated funds balances and activities have not been included in the financial statements as referred to in the preceding paragraph, and except for the effect of adjustments, which we may have determined to be necessary had we been able to obtain sufficient information regarding this matter, these consolidated financial statements present fairly, in all material respects, the financial position of the Board as at August 31, 2004 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

November 5, 2004

Chartered Accountants

LAMBTON KENT DISTRICT SCHOOL BOARD

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2004

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements are the responsibility of the Board's management and have been prepared in compliance with legislation, and in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants, except for the inclusion of school generated funds. A summary of the significant accounting policies are described in Note 2 to the financial statements. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

Board management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared by the Board's management in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants, except that school generated funds have not been included in these financial statements. The inclusion of school generated funds is not required by the Ministry of Education until the 2004 - 2005 fiscal year and, as a result, management has not quantified these balances and activities for the 2003 - 2004 fiscal year.

(a) REPORTING ENTITY

The consolidated financial statements reflect the assets, liabilities, revenues, expenditures and fund balances of the reporting entity. The reporting entity is comprised of all organizations accountable for the administration of their financial affairs and resources to the Board and which are controlled by the Board.

School generated funds, which include the assets, liabilities, revenues, expenditures and fund balances of various organizations that exist at the school level and which are controlled by the Board are not reflected in the consolidated financial statements as noted in paragraph three of the Auditors' Report.

(b) TRUST FUNDS

Trust funds and their related operations administered by the Board have been included in the consolidated financial statements as they are controlled by the Board.

(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 the cost of goods and services acquired in the period whether or not payment has been made or invoices received.

LAMBTON KENT DISTRICT SCHOOL BOARD

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2004

(d) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of cash on hand, demand deposits and short-term investments. Short-term investments are highly liquid, subject to insignificant risk of changes in value and have a short maturity term of less than 90 days.

(e) INVESTMENTS

Investments consist of marketable securities which are liquid short-term investments with maturities of between one month and five years at the date of acquisition, and are carried on the Statement of Financial Position at the lower of cost or market value.

(f) CAPITAL ASSETS

The historical cost and accumulated depreciation of capital assets are not reported. Capital assets are reported as expenditures on the Consolidated Statement of Financial Activities in the year of acquisition.

(g) 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.

(h) RETIREMENT AND OTHER EMPLOYEE FUTURE BENEFITS

The Board provides defined retirement and other future benefits to specified employee groups. These benefits include life insurance and health care benefits and retirement gratuity. The Board has adopted the following policies with respect to accounting for these employee benefits:

- (i) The costs of self insured retirement and other employee future benefit plans are actuarially determined using management's best estimate of salary escalation, accumulated sick days at retirement, insurance and health care costs trends, disability recovery rates, long-term inflation rates and discount rates.

For self insured retirement and other employee future benefits that vest or accumulate over the periods of service provided by employees, such as retirement gratuities and life insurance and health care benefits for retirees, the cost is actuarially determined using the projected benefits method prorated on service. Under this method, the benefit costs are recognized over the expected average service life of the employee group. Any actuarial gains and losses related to the past service of employees are amortized over the expected average remaining service life of the employee group.

- (ii) The costs of multi-employer defined pension plan benefits, such as the Ontario Municipal Employees Retirement System pensions, are the employer's contributions due to the plan in the period.
- (iii) The costs of insured benefits are the employer's portion of insurance premiums owed for coverage of employees during the period.

LAMBTON KENT DISTRICT SCHOOL BOARD

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2004

(i) RESERVES AND RESERVE FUNDS

Certain amounts, as approved by the Trustees, are set aside in reserves and reserve funds for future operating and capital purposes. Transfers to and/or from reserves and reserve funds are an adjustment to the respective fund when approved.

(j) GOVERNMENT TRANSFERS

Government transfers, which include 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.

(k) INVESTMENT INCOME

Investment income earned on surplus operating funds, capital funds, reserves and reserve funds are reported as revenue in the period earned.

Investment income earned on externally restricted funds such as pupil accommodation, education development charges and special education is added to the fund balance and forms part of the respective deferred revenue balances.

(l) BUDGET FIGURES

Budget figures have been provided for comparison purposes and have been derived from the budget approved by the Trustees. The budget approved by the Trustees is developed in accordance with the provincially mandated funding model for school boards and is used to manage program spending within the guidelines of the funding model. Given differences between the funding model and generally accepted accounting principles for local governments established by the Public Sector Accounting Board, the budget figures presented have been adjusted to conform with this basis of accounting as it is used to prepare the financial statements. The budget figures are unaudited.

(m) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the year. Actual results could differ from these estimates.

LAMBTON KENT DISTRICT SCHOOL BOARD

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2004

3. ADOPTION OF PUBLIC SECTOR ACCOUNTING RECOMMENDATIONS

Commencing in 2004, the Board has adopted generally accepted accounting principles applying the local government accounting standards issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants except that school generated funds have not been included, as disclosed in Note 1 to these financial statements. The comparative figures included in these financial statements have been restated to conform with the accounting standards adopted for the current year

Key elements of the changes to the balances reported include:

Establishing a liability on the Board's accounts for estimated employee future benefit obligations associated with retirement gratuity, life insurance and health care benefits and vacation pay earned but untaken. The restated statement of financial activities includes the cost of providing these benefits in the period earned.

Reporting amounts received that are subject to restrictions arising from legislation, regulations or agreements with external parties as deferred revenues. Previously such amounts were reported as revenues when received and accumulated in reserve funds. Amounts reported in the restated statement of financial activities include only revenues realized in the period expended in a manner consistent with the purpose specified.

To facilitate comparability, retroactive restatement has been made of the corresponding comparative figures for the 2003 year. A summary of the impact of key aspects of the restatement and the impact on amounts reported is set out below.

	Fiscal 2004 Net Expenditure	Fiscal 2003 Net Expenditure	Sept 1, 2003 Fund Balances
Recording employee future benefit and vacation pay obligations	\$ 363,980	\$ 829,620	\$ 26,337,297
Deferral of revenues subject to restrictions arising from legislation, regulations or agreements with external parties	\$ 374,413	\$ 4,346,074	\$ 6,607,533

4. INVESTMENTS

Investments consist of marketable securities and are comprised as follows:

	2004		2003	
	Cost	Market Value	Cost	Market Value
9.5% Province of Ontario compound bond maturing, September 15, 2004	\$ 6,461,480	\$ 6,500,000	\$ 5,899,493	\$ 6,338,670
3.0% to 6.35% Guaranteed Investment Certificates, maturing at various dates over the next five years	172,638	173,000	170,735	171,000
	\$ 6,634,118	\$ 6,673,000	\$ 6,070,228	\$ 6,509,670

LAMBTON KENT DISTRICT SCHOOL BOARD

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2004

5. DEFERRED REVENUE

The use of certain reserve funds are restricted by the provincial government regulations. It is a requirement of the public sector accounting principles of the Canadian Institute of Chartered Accountants that these reserve funds be reported as deferred revenue.

Deferred revenue set-aside for specific purposes by legislation, regulation or agreement as at August 31, 2004 is comprised of:

	2004	2003
Proceeds of disposition	\$ 1,912,697	\$ 2,541,377
Special education	2,759,305	1,302,015
Special education - Accommodation	-	180,641
Distant schools	137,035	-
Classroom	2,416,351	2,583,500
	\$ 7,225,388	\$ 6,607,533

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NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2004

6. RETIREMENT AND OTHER EMPLOYEE FUTURE BENEFITS

Liabilities	2004		2003	
	Retirement Benefits	Other Employee Future Benefits	Total Employee Future Benefits	Total Employee Future Benefits
Accrued employee future benefit obligations at August 31, 2004	\$ 26,596,934	\$ 94,159	\$ 26,691,093	\$ 26,337,297
Unamortized actuarial gains (losses) at August 31, 2004	-	-	-	-
Employee future benefits liability at August 31, 2004	\$ 26,596,934	\$ 94,159	\$ 26,691,093	\$ 26,337,297

Expenses	2004		2003	
	Retirement Benefits	Other Employee Future Benefits	Total Employee Future Benefits	Total Employee Future Benefits
Current year benefit cost	\$ 1,782,904	-	\$ 1,782,904	\$ 1,642,092
Interest on accrued benefit obligation	1,412,873	6,630	1,419,503	1,392,227
Employee future benefits expenses ¹	\$ 3,195,777	\$ 6,630	\$ 3,202,407	\$ 3,034,319

¹ Excluding pension contributions to the Ontario Municipal Employees Retirement System, a multi-employer pension plan, described below.

Retirement benefits

(i) Ontario Teachers' Pension Plan

Teachers and related employee groups are eligible to be members of Ontario Teachers' Pension Plan. Employer contributions for these employees are provided directly by the Province of Ontario. The pension costs and obligations related to this plan are a direct responsibility of the Province. Accordingly, no costs or liabilities related to this plan are included in the Board's financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2004

(ii) Ontario Municipal Employees Retirement System

All non-teaching employees of the Board are eligible to be members of the Ontario Municipal Employees Retirement System (OMERS), a multi-employer pension plan. The plan provides defined pension benefits to employees based on their length of service and rates of pay. From January 1, 2003 to December 31, 2003, eligible employees contributed at reduced rates of up to 2.6% of earnings. Effective January 1, 2004 employee contribution rates returned to levels of up to 8.8% of earnings. The Board contributions equal the employee contributions to the plan. During the year ended August 31, 2004, the Board contributed \$1,967,530 (2003 - \$514,743) to the plan. As this is a multi-employer pension plan, these contributions are the Board's pension benefit expenses. No pension liability for this type of plan is included in the Board's financial statements.

(iii) Retirement Gratuities

The Board provides retirement gratuities to certain groups of employees hired prior to specified dates. The amount of the gratuities paid to eligible employees at retirement is based on their salary, accumulated sick days, and years of service at retirement. The Board provides these benefits through an unfunded defined benefit plan. The benefit costs and liabilities related to this plan are included in the Board's financial statements.

(iv) Retirement Life Insurance and Health Care Benefits

The Board continues to provide life insurance, dental and health care benefits to certain employee groups after retirement until the members reach 65 years of age. The Board provides these benefits through an unfunded defined benefit plan. The benefit costs and liabilities related to this plan are included in the Board's financial statements.

Other Employee Future Benefits

(i) Workplace Safety and Insurance Board Obligations

The Board is a Schedule 2 employer under the Workplace Safety and Insurance Act and, as such, assumes responsibility for the payment of all claims to its injured workers under the Act.

(ii) School Boards Co-operative Inc.

The Board is a member of the School Boards' Co-operative Inc., a co-operative managing workers' compensation. The Board makes annual contributions, in trust, to the co-operative which are invested on its behalf. The fund reimburses Workplace Safety and Insurance Board for claims paid on behalf of the Board. The annual contributions are reported as expenditures in these financial statements. As at August 31, 2004, the co-operative holds \$39,631 (2003 - \$393,300) in trust for the Board. These funds are not reflected in these financial statements.

As detailed on the Schedule of the Reserve Fund, the Board has designated reserves for certain of these employee future benefit obligations. The balance of these reserves totalled \$4,796,431 at August 31, 2004 (2003 - \$3,796,549).

LAMBTON KENT DISTRICT SCHOOL BOARD

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2004

7. AMOUNTS TO BE RECOVERED IN FUTURE YEARS

The amounts to be recovered in future years reported on the Consolidated Statement of Financial Position are comprised of:

	2004	2003
Amounts to be financed in future years		
Retirement and other employee future benefits liability (Note 6)	\$ 26,691,093	\$ 26,337,297
Vacation accrual	847,387	837,203
	\$ 27,538,480	\$ 27,174,500

8. DEBT CHARGES AND CAPITAL LOANS AND LEASES INTEREST

The expenditure for debt charges, capital loans and capital leases interest includes principal, sinking fund contributions and interest payments as follows:

	2004	2003
Principal and interest payments on long-term liabilities including contributions to sinking funds	\$ 1,042,460	\$ -

9. EXPENDITURES BY OBJECT

The following is a summary of the current and capital expenditures reported on the Consolidated Statement of Financial Activities by object:

	2004 Budget	2004 Actual	2003 Actual
Current Expenditures:			
Salary and wages	\$136,174,886	\$ 135,732,296	\$ 132,908,108
Employee benefits	18,166,373	18,609,521	17,416,339
Staff development	586,496	876,858	657,436
Supplies and services	13,614,767	15,593,925	12,886,722
Interest	-	-	334,572
Fees and contract services	16,124,811	15,232,270	14,131,360
Other	956,945	1,130,225	40,718
Capital expenditures	13,832,480	13,265,165	11,920,481
	\$199,456,758	\$ 200,440,260	\$ 190,295,736

10. ONTARIO SCHOOL BOARD INSURANCE EXCHANGE (OSBIE)

The school board is a member of the Ontario School Board Insurance Exchange (OSBIE), a reciprocal insurance company licensed under the Insurance Act. OSBIE insures general public liability, property damage and certain other risks.

LAMBTON KENT DISTRICT SCHOOL BOARD

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2004

11. CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

(a) CONTINGENT LIABILITY

The Board has been named in lawsuits. No provision has been made in the financial statements as the outcome is not determinable at this time. The settlement amount, if any, in excess of liability insurance coverage will be accounted for in the year determined.

During the 2002 - 2003 year, the Board entered into an assignment and assumption agreement with the 55 School Board Trust. The trust was established to assume the liability for all not permanently financed capital debt. The agreement provides for the assignment of future Board grant money regarding the not permanently financed debt to the trust to fund the capital and interest obligations.

The trust assumed \$9,995,250 in not permanently financed capital last year.

In addition to the assignment and assumption agreement described above, the Board has also entered into a contribution agreement. This agreement provides that the board will share expenses payable to the trustee in the unlikely event that the assets of the Trust are insufficient to do so.

(b) CONTRACTUAL OBLIGATIONS

The Board has entered into contractual agreements for capital projects that were not completed by August 31, 2004. The total costs of these projects are estimated to be \$4,958,908. Costs incurred to August 31, 2004 on these capital projects are \$1,753,511.

12. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the financial statement presentation format adopted for the current year.