

Consolidated Financial Statements of

TORONTO DISTRICT SCHOOL BOARD

August 31, 2006

Auditors' Report

To the Board of Trustees of
the Toronto District School Board

We have audited the consolidated statement of financial position of the Toronto District School Board as at August 31, 2006 and the consolidated statements of financial activities and fund balance and of 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.

In common with many school boards, individual schools derive revenue from school fundraising activities held throughout the year. Adequate documentation and controls were not in place throughout the year to allow us to obtain satisfactory audit verification as to the completeness of these revenues. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the individual schools and we were not able to determine whether adjustments might be necessary to school fundraising revenue, net revenue, financial assets and net financial position.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of school fundraising revenue referred to in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the Toronto District School Board as at August 31, 2006 and the results of its operations and changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
December 1, 2006

TORONTO DISTRICT SCHOOL BOARD

Table of Contents

August 31, 2006

	<u>Page</u>
Consolidated Statement of Financial Position	1
Consolidated Statement of Financial Activities and Fund Balance	2
Consolidated Statement of Changes in Financial Position	3
Schedule of Operating Fund Financial Activities and Fund Balance - Schedule 1	4
Schedule of Capital Fund Financial Activities and Fund Balance - Schedule 2	5
Schedule of Reserve Fund Financial Activities and Fund Balance - Schedule 3	6
Schedule of School Generated Fund Financial Activities and Fund Balance - Schedule 4	7
Notes to the Consolidated Financial Statements	8-21

TORONTO DISTRICT SCHOOL BOARD

Consolidated Statement of Financial Position

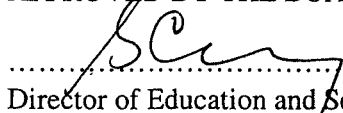
August 31, 2006

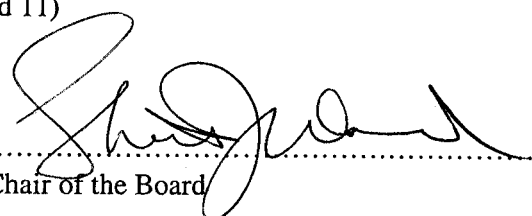
(in thousands of dollars)

	<u>2006</u>	<u>2005</u> (Note 14)
FINANCIAL ASSETS		
Cash and cash equivalents	\$ 60,894	\$ 28,922
Due from City of Toronto	160,797	217,868
Accounts receivable	18,877	29,436
Funds on deposit (Notes 4(f) and 14(b))	33,080	31,210
Total financial assets	273,648	307,436
FINANCIAL LIABILITIES		
Short term borrowing (Note 2)	97,000	10,000
Accounts payable and accrued liabilities	177,868	160,267
Due to Province of Ontario	13,528	3,563
Accrued vacation pay	12,547	12,109
Deferred revenue		
Reserve funds (Note 3)	22,219	63,929
Other	33,492	37,619
Employee future benefits payable (Note 4)	417,121	416,880
Net long term debt (Note 5)	93,690	106,512
Total liabilities	867,465	810,879
Net financial liabilities	(593,817)	(503,443)
NON-FINANCIAL ASSET - Prepaid expenses	7,297	5,341
NET LIABILITIES	\$ (586,520)	\$ (498,102)
FINANCIAL POSITION		
Fund balances		
Operating Fund - Schedule 1	\$ -	\$ -
Capital Fund - Schedule 2	(96,997)	(1,287)
Reserve Fund - Schedule 3 (Note 6)	22,048	28,637
School Generated Activity Fund - Schedule 4	14,808	14,059
Total fund balances	(60,141)	41,409
Amounts to be recovered in future years (Note 7)	(526,379)	(539,511)
NET FINANCIAL POSITION	\$ (586,520)	\$ (498,102)

COMMITMENTS AND CONTINGENCIES (Notes 10 and 11)

APPROVED BY THE BOARD

.....

 Director of Education and Secretary Treasurer

.....

 Chair of the Board

See accompanying notes to financial statements.

TORONTO DISTRICT SCHOOL BOARD
Consolidated Statement of Financial Activities and Fund Balance
Year ended August 31, 2006
(in thousands of dollars)

	2006		2005
	Budget (unaudited)	Actual	Actual (Note 14)
REVENUES			
Local taxation	\$ 1,390,739	\$ 1,427,053	\$ 1,396,818
Provincial grants			
Student focused funding	838,422	820,830	772,739
Other	8,213	38,238	76,281
Federal grants and fees	34,906	38,782	32,746
Other fees and revenues	79,651	113,083	121,333
School fundraising	40,000	41,252	37,829
Total revenues	2,391,931	2,479,238	2,437,746
EXPENDITURES (Note 8)			
Instruction	1,820,265	1,888,745	1,796,860
Administration	90,715	95,346	91,396
Transportation	39,694	41,689	38,920
School operations and maintenance	301,687	295,823	292,752
Pupil accommodation	218,235	207,506	133,506
School funded activities	40,000	40,503	37,705
Total expenditures	2,510,596	2,569,612	2,391,139
NET (EXPENDITURE) REVENUE	(118,665)	(90,374)	46,607
INCREASE (DECREASE) IN NON-FINANCIAL ASSETS - prepaid expenses			
	-	1,956	(546)
CHANGE IN NET LIABILITIES	(118,665)	(88,418)	46,061
FINANCING TRANSACTIONS			
Debt repayments - principal	(16,734)	(12,822)	(18,634)
Debt retirement	-	-	(55,200)
Debt issue	-	-	40,000
Increase in unfunded liabilities	(14,501)	(310)	(1,490)
CHANGE IN AMOUNTS TO BE RECOVERED	(31,235)	(13,132)	(35,324)
CHANGE IN FUND BALANCE	(149,900)	(101,550)	10,737
FUND BALANCE, BEGINNING OF YEAR	23,900	41,409	30,672
FUND BALANCE, END OF YEAR	\$ (126,000)	\$ (60,141)	\$ 41,409

See accompanying notes to financial statements.

TORONTO DISTRICT SCHOOL BOARD
Consolidated Statement of Changes in Financial Position
Year ended August 31, 2006
(in thousands of dollars)

	<u>2006</u>	<u>2005</u> (Note 14)
NET INFLOW (OUTFLOW) OF CASH AND CASH EQUIVALENTS RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net (expenditure) revenue	\$ (90,374)	\$ 46,607
Item not affecting cash		
Provincial grant/debt retirement	-	(55,200)
	<u>(90,374)</u>	<u>(8,593)</u>
Sources and uses		
Decrease in due from City of Toronto	57,071	22,791
Decrease (increase) in accounts receivable	10,559	(13,098)
Increase in accounts payable and accrued liabilities and accrued vacation pay	18,039	24,810
Increase (decrease) in due to Province of Ontario	9,965	(39,903)
(Decrease) increase in deferred revenues		
Reserves funds	(41,710)	(12,999)
Other	(4,127)	11,415
Increase (decrease) in employee future benefits payable	241	(2,819)
Net decrease in cash and cash equivalents from operations	<u>(40,336)</u>	<u>(18,396)</u>
FINANCING TRANSACTIONS		
Funds on deposit	(1,870)	(4,990)
City of Toronto short term borrowing	(10,000)	10,000
Short term borrowing	97,000	-
Debt repayments	(12,822)	(18,634)
Debt issue	-	40,000
	<u>72,308</u>	<u>26,376</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	31,972	7,980
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	28,922	20,942
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 60,894	\$ 28,922

See accompanying notes to financial statements.

TORONTO DISTRICT SCHOOL BOARD
Schedule of Operating Fund Financial Activities and Fund Balance
Year ended August 31, 2006
(in thousands of dollars)

Schedule 1

	2006		2005
	Budget (unaudited)	Actual	Actual (Note 14)
REVENUES			
Local taxation	\$ 1,390,739	\$ 1,427,053	\$ 1,396,818
Provincial grants			
Student focused funding	838,422	820,830	772,739
Other	8,213	38,238	76,281
Federal grants and fees	34,906	38,782	32,746
Other fees and revenues	55,442	70,188	86,667
Total revenues	2,327,722	2,395,091	2,365,251
EXPENDITURES			
Instruction	1,807,800	1,870,307	1,779,688
Administration	89,573	94,863	90,073
Transportation	39,694	41,689	38,920
School operations and maintenance	300,002	295,073	290,695
Pupil accommodation	16,397	11,076	13,294
Total expenditures	2,253,466	2,313,008	2,212,670
NET REVENUE	74,256	82,083	152,581
INCREASE (DECREASE) IN NON-FINANCIAL ASSETS			
Prepaid expenses	-	1,956	(546)
FINANCING TRANSACTIONS			
Debt repayments - Principal	(16,734)	(12,822)	(18,634)
Debt retirement	-	-	(55,200)
Increase in unfunded liabilities	(14,501)	(310)	(1,490)
CHANGE IN AMOUNTS TO BE RECOVERED	(31,235)	(13,132)	(75,324)
NET TRANSFERS (TO) FROM OTHER FUNDS			
Transfers to Capital Fund	(56,921)	(62,855)	(64,812)
Transfers (to) from Reserve Funds	13,900	(8,052)	(22,673)
Net transfers to other funds	(43,021)	(70,907)	(87,485)
CHANGE IN OPERATING FUND BALANCE	-	-	(10,774)
OPERATING FUND BALANCE, BEGINNING OF YEAR	-	-	10,774
OPERATING FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

TORONTO DISTRICT SCHOOL BOARD
Schedule of Capital Fund Financial Activities and Fund Balance
Year ended August 31, 2006
(in thousands of dollars)

Schedule 2

	2006		2005
	Budget (unaudited)	Actual	Actual (Note 14)
REVENUES			
Other revenues	\$ 24,209	\$ 42,895	\$ 34,666
EXPENDITURES			
Instruction	12,465	18,438	17,172
Administration	1,142	483	1,324
School operations and maintenance	1,685	750	2,057
Pupil accommodation	201,838	196,430	120,212
Total expenditures	217,130	216,101	140,765
Net expenditure	(192,921)	(173,206)	(106,099)
LONG TERM FINANCING	-	-	40,000
NET TRANSFERS FROM			
Operating Fund	56,921	62,855	64,812
Reserve Fund	-	14,641	35,378
CHANGE IN CAPITAL FUND BALANCE	(136,000)	(95,710)	34,091
CAPITAL FUND BALANCE, BEGINNING OF YEAR	-	(1,287)	(35,378)
CAPITAL FUND BALANCE, END OF YEAR	\$ (136,000)	\$ (96,997)	\$ (1,287)

See accompanying notes to financial statements.

TORONTO DISTRICT SCHOOL BOARD
Schedule of Reserve Fund Financial Activities and Fund Balance
Year ended August 31, 2006
(in thousands of dollars)

Schedule 3

	2006		2005
	<u>Budget</u> (unaudited)	<u>Actual</u>	<u>Actual</u>
NET TRANSFERS (TO) FROM			
Operating Fund	\$ (13,900)	\$ 8,052	\$ 22,673
Capital Fund	-	(14,641)	(35,378)
CHANGE IN RESERVE FUND BALANCE	(13,900)	(6,589)	(12,705)
RESERVE FUND BALANCE, BEGINNING OF YEAR	13,900	28,637	41,342
RESERVE FUND BALANCE, END OF YEAR	\$ -	\$ 22,048	\$ 28,637

See accompanying notes to financial statements.

TORONTO DISTRICT SCHOOL BOARD
Schedule of School Generated Fund Financial Activities
and Fund Balance

Year ended August 31, 2006

(in thousands of dollars)

Schedule 4

	2006		2005
	Budget (unaudited)	Actual	Actual
REVENUES			
School fundraising and other revenue	\$ 40,000	\$ 41,252	\$ 37,829
EXPENDITURES			
School funded activities	40,000	40,503	37,705
NET INCOME AND CHANGE IN SCHOOL GENERATED ACTIVITY FUND	-	749	124
SCHOOL GENERATED ACTIVITY FUND BALANCE, BEGINNING OF YEAR	10,000	14,059	13,935
SCHOOL GENERATED ACTIVITY FUND BALANCE, END OF YEAR	\$ 10,000	\$ 14,808	\$ 14,059

See accompanying notes to financial statements.

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are the representations of management prepared in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of The Canadian Institute of Chartered Accountants.

Significant accounting policies adopted are as follows:

a) Reporting entity

The consolidated financial statements reflect the assets, liabilities, revenues, expenditures and fund balances of the reporting entity. The reporting entity includes all organizations 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 reflected in the consolidated financial statements.

All material interdepartmental and inter-entity transactions and balances between these organizations are eliminated on consolidation.

b) Trust funds

Trust funds and their related operations administered by the Board amounting to \$6.2 million (2005 - \$5.5 million) are not included in the consolidated financial statements.

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 the result of the receipt of goods or services and the creation of a legal obligation to pay.

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 an original maturity term of less than 90 days.

e) 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 and Fund Balance in the year of acquisition or construction.

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) *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 will be recognized as revenue in the fiscal year the related qualifying expenditures are incurred or services are performed.

g) *Retirement and other employee future benefits*

The Board provides defined retirement and other future benefits to specified employee groups. These benefits include pension, health, sick leave credit gratuity, accumulated sick leave, workers' compensation and long-term disability benefits. 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 cost trends, disability recovery rates, long-term inflation rates and discount rates.

For self insured retirement and other employee future benefits that vest and accumulate over the periods of service provided by employees, such as sick leave credit gratuities, 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.

For non-vesting accumulating sick days, the accrued benefit obligation is the actuarial present value of the future expected cash flows with respect to the existing sick leave bank balances determined as at the valuation date. These cash flows will reflect expected salary increases and survivorship at each future date.

For those self insured benefit obligations that arise from specific events that occur from time to time, such as obligations for workers' compensation, long-term disability and life insurance and health care benefits for those on disability leave, the cost is recognized immediately in the period the events occur. Any actuarial gains and losses that are related to obligations for workers' compensation are recognized immediately in the period they arise.

Actuarial gains and losses related to obligations for long-term disability are amortized over the expected average service life of the employee group.

- (ii) The Board's contributions to multi-employer defined benefit pension plans, such as the Ontario Municipal Employees Retirement System pensions, are recorded in the period in which they become payable.
- (iii) The costs of insured benefits for active employees reflected in these consolidated financial statements are the Board's portion of insurance premiums owed for coverage of employees during the period.

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Reserves and reserve funds

Certain amounts, as approved by the Board of 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 recorded as an adjustment to the respective reserve/reserve fund in accordance with Board approval.

i) 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, all eligibility criteria have been met and reasonable estimates of the amount can be made.

j) Investment income

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

Interest income earned on monies invested specifically for externally restricted funds is added to the fund balance and forms part of the respective deferred revenue balances.

k) Budget figures

Budget figures have been provided for comparison purposes and have been derived from the original budget approved by the Board of Trustees at the time of the submission of the Annual Estimates for 2005-2006 to the Ministry of Education on July 18, 2006. The budget approved by the Board of Trustees was 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. The budget figures reported in the consolidated financial statements have been presented on a basis consistent with Public Sector Accounting Standards. These budget figures are unaudited.

l) 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 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. Estimates are reviewed periodically by management and, as adjustments become necessary, they are reported in the period in which they became known.

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

2. SHORT TERM BORROWING

	<u>2006</u>	<u>2005</u>
90 day Bankers Acceptances bearing interest at rates ranging from 4.45% to 4.63%, maturing at various dates to November 17, 2006	\$ 97,000	\$ -
City of Toronto short term borrowing	-	10,000
	<u>\$ 97,000</u>	<u>\$ 10,000</u>

The Board has incurred short term borrowing at August 31, 2006 in the amount of \$97 million, to provide interim financing for the Phase 1 of the Good Places to Learn (“GPL 1”) initiative of the Ministry of Education (“the Ministry”). The GPL 1 initiative will provide the board with approximately \$175 million for major renewal projects for its school buildings. The Ministry has committed to fund the interest cost incurred on the short term financing. Further, the Ministry will periodically arrange for the permanent financing, under a long term financing arrangement.

Subsequent to year end, on November 15, 2006, the Board entered into a loan agreement with the Ontario Financing Authority to refinance \$107.7 million of the GPL 1 outstanding at that time. The loan is repayable by semi-annual instalments of principal and interest of \$3.6 million based on a 25 year amortization schedule and bears interest of 4.5%. The annual principal and interest costs will be funded by the Ministry.

3. DEFERRED REVENUE - RESERVE FUNDS

Deferred revenue externally restricted for specific purposes by legislation, regulation or agreement as at August 31, is comprised of:

	<u>2006</u>	<u>2005</u>
Pupil accommodation - facilities renewal	\$ 19,610	\$ 18,875
Proceeds of disposition	461	26,477
Permanent improvements	-	2,244
Assistance for student success	998	583
Phase IV energy project	1,150	3,872
Program improvement	-	11,878
	<u>\$ 22,219</u>	<u>\$ 63,929</u>

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

3. DEFERRED REVENUE - RESERVE FUNDS (continued)

The Continuity of Deferred Revenue - Reserve Funds of the Board is summarized below:

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 63,929	\$ 76,928
Increase in deferred revenue	59,028	120,894
Interest earned	1,759	1,790
	<u>124,716</u>	<u>199,612</u>
Deferred revenue recognized	102,497	135,683
Balance, end of year	<u>\$ 22,219</u>	<u>\$ 63,929</u>

4. RETIREMENT AND OTHER EMPLOYEE FUTURE BENEFITS

- (a) The Board provides certain benefits to employees and retirees the majority of which are unfunded and will require funding in future periods. An actuarial valuation of each respective plan was completed as of August 31, 2006. A brief overview of these benefit plans is set out below.

Pension benefits

- (i) *Supplementary War Veterans Allowance*

The Supplementary War Veterans Allowance Plan (the "Plan") consists of allowances to be paid to retired employees of the former Board of Education for the City of Toronto. The Plan is closed to new members. The Plan includes survivor benefits of 66 2/3% for the surviving spouse. The pension is subject to indexing at 100% of the increase in CPI. This Plan is unfunded. The benefit costs and liability related to this plan are recorded in the Board's consolidated financial statements.

- (ii) *The Toronto District School Board Business and Support Employees' Paid-up Pension Plan (Formerly the North York Board of Education (the Plan"))*

The Plan relates to the non-teaching employees of the former North York Board of Education who were hired before July 1, 1965 and who had paid-up entitlement in the former Metropolitan Toronto Pension Plan for service before their date of transfer to the OMERS Plan. The Plan has been closed to new members since July 1, 1965. The Plan includes, among other provisions, survivor benefits of 66 2/3% of the members' full accrued pension. The Plan has been subject to indexing at 100% of the increase in the CPI. The Plan is fully funded. The benefit costs and liability related to this plan are recorded in the Board's consolidated financial statements.

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

4. RETIREMENT AND OTHER EMPLOYEE FUTURE BENEFITS (continued)

(a) (continued)

Retirement benefits

(i) *Sick leave credit gratuities*

The Board provides sick leave credit gratuities to certain groups of employees. The amount of the gratuities paid to eligible employees at retirement, death or total disability is based on their salary, accumulated sick days, and years of service at the time of the event. The Board provides these benefits through an unfunded defined benefit plan. The benefit costs and liabilities related to this plan are recorded in the Board's consolidated financial statements.

(ii) *Retirement life insurance and health care benefits*

Employees are able to continue coverage for life insurance, dental and health care benefits after retirement until the members reach 65 years of age; however, the retirees pay the full premium associated with this coverage. For those employees retiring before September 1, 2004 the premiums are partially subsidized by the Board, as the retirees are in the same experience group as the active employees. All retirees on or after September 1, 2004 are not subsidized by the Board. The future liability of these benefits is unfunded.

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. The Board does not fund these obligations in advance of payments made under the Act. The benefit costs and actuarially determined liabilities related to this plan based on management's best estimate are recorded in the Board's consolidated financial statements.

(ii) *Long-term disability benefits*

The Board provides long term disability insurance coverage for non-teaching employees. The benefit costs and actuarially determined liabilities related to this plan are included in the Board's financial statements. This benefit plan is fully funded.

Teaching staff have their own long term disability plans through their Federations and are responsible for the entire cost. Accordingly, no costs or liabilities related to these plans are included in the Board's consolidated financial statements.

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

4. RETIREMENT AND OTHER EMPLOYEE FUTURE BENEFITS (continued)

(a) (continued)

(ii) *Long-term disability benefits (continued)*

The Board provides life insurance, dental and health care benefits to employees on long-term disability leave for a period of two years after the date of disability. The insurance carriers waive the life insurance premiums for employees on long-term disability; however, the Board and employee are responsible for the payment of the costs of health care benefits under this plan under the same cost-sharing arrangements to which the employee would be entitled as an active employee. Continuation of dental coverage is also available subject to the employee paying the full cost.

(iii) *Non-vesting sick leave*

The Board provides accumulating, non-vesting sick day entitlements which may be used by the employee through paid time off. The benefit costs and liabilities related to the portion of the "sick days" accumulated to the fiscal year end and considered likely to be used by employees based on probabilities relating to usage, salary escalation and discount rates, are actuarially determined and are recorded in the Board's consolidated financial statements.

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

4. RETIREMENT AND OTHER EMPLOYEE FUTURE BENEFITS (continued)

(b) Retirement and other employee future benefits liabilities

	2006				2005
	Pension Benefits	Retirement Benefits	Other Benefits	Total	Total
Accrued benefit obligation					
Balance, beginning of year	\$ 20,050	\$ 265,881	\$ 239,950	\$ 525,881	\$ 492,486
Employer current service cost	-	15,876	18,309	34,185	32,213
Interest cost	855	11,643	7,746	20,244	23,928
Benefits paid	(2,099)	(26,817)	(25,568)	(54,484)	(59,741)
Actuarial losses (gain)	(236)	(1,875)	10,359	8,248	36,870
Plan amendments	-	-	-	-	125
Balance, end of year	\$ 18,570	\$ 264,708	\$ 250,796	\$ 534,074	\$ 525,881
Plan Assets					
Fair value, beginning of year	\$ 10,099	\$ -	\$ 71,489	\$ 81,588	\$ 78,447
Actual return on plan assets	528	-	1,333	1,861	7,655
Employer contributions	1,001	26,817	26,501	54,319	58,958
Valuation allowance	(281)	-	-	(281)	(3,730)
Benefits paid	(2,099)	(26,817)	(25,568)	(54,484)	(59,742)
Fair value, end of year	\$ 9,248	\$ -	\$ 73,755	\$ 83,003	\$ 81,588
Funded status					
Plan deficit	\$ (9,322)	\$ (264,708)	\$ (177,041)	\$ (451,071)	\$ (444,293)
Unamortized net actuarial loss	-	22,656	11,294	33,950	27,413
Accrued benefit liability	\$ (9,322)	\$ (242,052)	\$ (165,747)	\$ (417,121)	\$ (416,880)

(c) Retirement and other employee future benefits expenses

	2006				2005
	Pension Benefits	Retirement Benefits	Other Benefits	Total	Total
Current service cost	\$ -	\$ 15,876	\$ 18,309	\$ 34,185	\$ 35,863
Interest cost	855	11,643	7,746	20,244	23,966
Expected return on plan assets	(528)	-	(1,333)	(1,861)	(3,331)
Amortization of net actuarial loss (gain)	(236)	2,871	(925)	1,710	(361)
Increase (decrease) in valuation allowance	281	-	-	281	(1)
Net benefit plan expense	\$ 372	\$ 30,390	\$ 23,797	\$ 54,559	\$ 56,136

These amounts are included in the respective expenditure categories on the Consolidated Statement of Financial Activities and Fund Balance.

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

4. RETIREMENT AND OTHER EMPLOYEE FUTURE BENEFITS (continued)

(d) Actuarial assumptions

The accrued benefit obligations for retirement and other employee future benefit plans as at August 31, 2006 are based on actuarial valuations for accounting purposes as at August 31, 2006, except for war veterans and North York pensions, which are based on actuarial valuations for accounting purposes as at August 31, 2004 and December 31, 2004, respectively. These actuarial valuations were based on assumptions about future events. The economic assumptions used in these valuations are the Board's best estimates of expected rates of:

	<u>2006</u>	<u>2005</u>
Estimated inflation		
Health	11.50%	12.00%
Dental	7.50%	8.00%
War veterans	2.50%	2.40%
North York pension	2.50%	2.40%
WSIB	2.50%	2.40%
LTDI	2.50%	3.00%
Wage and salary escalation	3.75%	2.0% - 3.0%
Discount on accrued benefit obligations		
Sick leave credit gratuity	4.75%	4.50%
Life, health and dental	4.75%	4.50%
War veterans	4.90%	4.50%
North York pension	4.90%	4.50%
WSIB	4.50%	4.50%
LTDI	4.75%	4.50%
Sick leave accumulation	4.75%	4.50%

(e) Multi Employer Pension Plans

(i) *Ontario Teachers' Pension Plan*

Teachers and related employee groups are eligible to be members of Ontario Teachers' Pension Plan, a multi-employer 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 consolidated financial statements.

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

4. RETIREMENT AND OTHER EMPLOYEE FUTURE BENEFITS (continued)

(e) Multi Employer Pension Plans (continued)

(ii) *Ontario Municipal Employees Retirement System*

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. The Board's contributions equal the employees' contributions to the Plan. During the year ended August 31, 2006, the Board contributed \$24.9 million (2005 - \$22.9 million) 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 consolidated financial statements.

(f) Funds held on deposit for current period costs

I. Health and dental funds on deposit

The board has funds held on deposit with Legg Mason and Manulife to fund current liabilities for the health and dental plans of the Board in the amount of \$23.7 million (2005 - \$19.8 million). These funds primarily cover estimated current period claims yet to be submitted by employees.

II. Group life funds on deposit

The Board has funds held on deposit with Legg Mason and Great West Life to fund current liabilities for the group life insurance plans of the Board in the amount of \$9.4 million (2005 - \$11.4 million).

5. NET LONG-TERM DEBT

(a) Net long-term debt reported in the Consolidated Statement of Financial Position is comprised of the following:

	<u>2006</u>	<u>2005</u>
5.071% Amortizing Debenture (note 5(b))	\$ 38,188	\$ 39,411
City of Toronto Debentures, net of sinking fund assets (Note 5c)	54,602	65,901
City of Toronto Capital Loan (floating interest rate, principal payments of \$300 annually; maturing August 31, 2009)	900	1,200
Balance as at August 31	\$ 93,690	\$ 106,512

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

5. NET LONG-TERM DEBT (continued)

- (b) On December 17, 2004 the Board issued a \$40 million debenture to fund an equivalent amount of major renovation projects. The debenture bears interest at 5.071% and has a 20-year amortization with semi-annual interest and principal payments of \$1.6 million. The annual debt service of \$3.2 million will be funded from the annual Facility Renewal Grant.
- (c) City of Toronto Debentures in the amount of \$50.6 million and \$75.8 million maturing September 27, 2006 and December 12, 2017, with interest rates of 6.1% and 7.4% respectively. Sinking fund assets in the amount of approximately \$71.8 million (2005 - \$111.1 million) have been set aside to retire the long-term City of Toronto debentures. The market value of sinking fund assets as at August 31, 2006 was \$72.1 million (2005 - \$114.6 million).
- (d) Principal and sinking fund payments relating to net long-term liabilities of \$93.7 million outstanding as at August 31, 2006 are due as follows:

	Principal and Sinking Fund Contributions	Interest	Total
2006 - 2007	\$ 7,714	\$ 8,468	\$ 16,182
2007 - 2008	3,945	6,515	10,460
2008 - 2009	4,015	6,428	10,443
2009 - 2010	3,788	6,339	10,127
2010 - 2011	3,864	6,262	10,126
Thereafter	47,123	42,287	89,410
Net long-term debt	\$ 70,449	\$ 76,299	\$ 146,748

In addition, debenture interest on sinking fund contributions estimated to amount to approximately \$23.3 million is expected to be earned during the remaining life of the City of Toronto debentures. This interest together with the sinking fund contributions will fund the total outstanding City of Toronto debentures principal of \$126.4 million.

6. RESERVES AND RESERVE FUNDS

Internally restricted reserves and reserve funds set-aside for specific purposes by the Board of Trustees as at August 31, 2006 are comprised of:

	2006	2005
SAP (HR-financial system)	\$ -	\$ 14,641
Special education	1,675	2,087
School surplus	7,270	5,925
Site funded improvements	400	573
Working funds	12,703	5,411
	\$ 22,048	\$ 28,637

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

7. AMOUNTS TO BE RECOVERED

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

	<u>2006</u>	<u>2005</u>
Net long-term debt (Note 5(a))	\$ 93,690	\$ 106,512
Retirement and other employee future benefits liability (Note 4b)	417,121	416,880
Accrued vacation pay	12,547	12,109
Interest accrual	3,021	4,010
	<u>\$ 526,379</u>	<u>\$ 539,511</u>

8. EXPENDITURES BY OBJECT

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

	<u>2006</u>	<u>2005</u>
	<u>Actual</u>	<u>Actual</u>
Current expenditures		
Salary and wages	\$ 1,727,620	\$ 1,639,672
Employee benefits	256,161	241,546
Staff development	7,932	12,107
Supplies and services	200,280	180,292
Replacement, furniture and equipment	16,189	11,146
Interest	11,074	13,293
Rental expenditures	9,915	8,788
Fees and contract services	76,664	72,033
Other	7,173	33,792
Capital expenditures	216,101	140,765
School activities expenditures	40,503	37,705
	<u>\$ 2,569,612</u>	<u>\$ 2,391,139</u>

9. ONTARIO SCHOOL BOARD INSURANCE EXCHANGE (OSBIE)

The Board participates for its liability, property and automobile insurance in the Ontario School Boards' Insurance Exchange (OSBIE), a reciprocal insurance company licensed under the Insurance Act, that is funded by the member boards across Ontario. Liability insurance is available to a maximum of \$20 million per occurrence.

The ultimate premiums over a five year period are based on both the reciprocal's and the Board's actual claims experience. Periodically, the Board may receive a refund or be asked to pay an additional premium based on its pro rata share of claims experience. The current five year term expires on January 2007.

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

10. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Capital, facility renewals and renovations

The Board's commitments for approved capital and facility renewal programs as of August 31, 2006 amounted to \$36.6 million.

Other significant obligations

The Board awarded a two-year extension for its contracts for student transportation, which expire August 31, 2007. The estimated annual commitment under these contracts is \$30 million.

The Board is committed to purchase natural gas through a supply contract expiring on October 31, 2007. The estimated annual cost of this is \$26.8 million which can fluctuate depending on the price of natural gas.

11. CONTINGENT LIABILITIES

The Board has been named as the defendant in certain legal actions, in which damages have been sought. Where the outcome of some of these actions is reasonably determinable a provision has been set up in the amount of \$205,000. Where the outcomes of the remaining actions is not determinable as at August 31, 2006, no provision has been made for these claims in the financial statements. Any losses arising from these actions will be recorded in the year that the related litigation is settled.

The Board is currently appealing an order of the Pay Equity Commission at the Pay Equity Tribunal related to certain union groups concerning pay equity. Management has established a provisional amount, which has been recorded in the financial statements to address the possible outcome of this process.

12. REPAYMENT OF "55 SCHOOL BOARD TRUST" FUNDING

On June 1, 2003, the Board received \$275.1 million from the "55 School Board Trust" for its capital related debt eligible for provincial funding support pursuant to a 30-year agreement it entered into with the trust. The "55 School Board Trust" was created to refinance the outstanding not permanently financed (NPF) debt of participating boards who are beneficiaries of the trust. Under the terms of the agreement, the "55 School Board Trust" repaid the board's debt in consideration for the assignment by the board to the trust of future provincial grants payable to the Board in respect of the NPF debt.

The flow-through of \$20.5 million (2005 - \$20.5 million) in grants in respect of the above agreement for the year ended August 31, 2006, is not recorded in these consolidated financial statements.

TORONTO DISTRICT SCHOOL BOARD

Notes to the Consolidated Financial Statements

August 31, 2006

(Tabular amounts in thousands of dollars)

13. FINANCIAL CONTRIBUTION AGREEMENTS

During 2001-2002, the Board established three joint trust accounts with the Toronto Catholic District School Board pertaining to Education Development Levy Agreements. These Agreements pertain to building developments that pre-date the passing of the Education Development Charges By-law of the Board under provisions of the Education Act. The total levy amount in these joint trust accounts as at August 31, 2006 is \$23.6 million (August 31, 2005 - \$19.3 million). The Board's financial interest in these joint trust accounts has not been reflected in the Consolidated Statement of Financial Position, as the amounts are determined jointly and will be apportioned at the time the funds are required for school construction. These funds must be used for construction of school facilities in specific designated areas of the City of Toronto.

14. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation. The most significant of these are noted below:

- a) Capital fund revenue reported in the prior year comparative figures has been reclassified to reflect the current year's basis of presentation. In prior year's "Proceeds of Disposition" revenue was reported in the Schedule of Operating Fund Activities and Fund Balance as "other fees and revenues". Commencing in fiscal 2006, this type of revenue is reported directly in the Schedule of Capital Fund Activities and Fund Balance, as "other revenue". The result of the change in presentation was to decrease Operating Fund Revenue and increase Capital Fund revenue each by \$30.0 million. As a result, the transfer between the Operating fund and the Capital fund was also reduced by \$30.0 million. There was no change to the Operating Fund or the Capital Fund balance as a result of this reclassification.
- b) In prior years, funds on deposit for current period costs for employee benefits (Note 4(f)) were netted against the related benefit liability on the Consolidated Statement of Financial Position. Commencing in the fiscal 2006 year, these amounts are no longer netted. Prior year figures have been reclassified to reflect this change in the basis of presentation. The effect on the prior year's figures was an increase in financial assets for "Funds on Deposit" of \$31.2 million; an increase in "Accounts payable and Accrued liabilities" of \$25.5 million and an increase in "Deferred Revenue - Other" of \$5.7 million.